

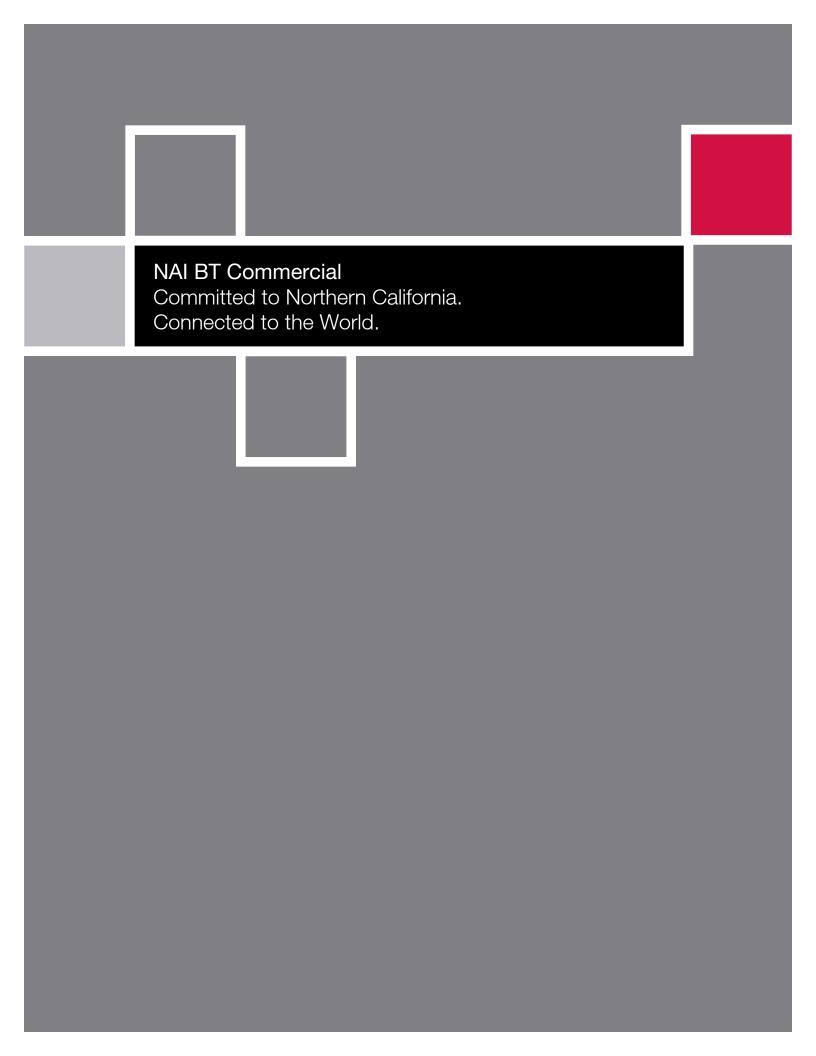
2006 Northern California Commercial Real Estate Overview



THE 2006 NORTHERN CALIFORNIA COMMERCIAL REAL ESTATE OVERVIEW

The 2006 Northern California Commercial Real Estate Overview is an annual review of the major markets covered by each of NAI BT Commercial's 14 regional offices.

The scope of the guide reflects NAI BT Commercial's regional aim in the commercial real estate market—to be a local-market firm with regional and global reach. This guide offers summaries and specific local submarket information that are easily located and quickly understood. This overview represents only a fraction of our research capabilities. Each of NAI BT Commercial's regional offices provides quarterly reports and custom building-by-building analysis as a service to our customers.



TO OUR VALUED CLIENTS,

Each year, NAI BT Commercial produces the Northern California Commercial Real Estate Overview, the region's most thorough and extensive summary of market conditions and trends in the office, R&D, industrial, warehouse, multi-family and retail markets. This year, we are delighted to have extended our scope to include the Sacramento Valley and the I-680 Corridor region; an expanded city-by-city overview for Marin and Sonoma Counties; and more in-depth retail, multifamily, and investment sections. We offer this overview to assist you and your company with your real estate planning and, of course, to thank you for your continuing business.

On a global front, 2005 remained a year of unease, as the war in Iraq continued in addition to the perpetual acts of terrorism. And two of the most devastating tragedies in U.S. history came from Mother Nature herself via Hurricanes Katrina and Rita. The immeasurable impact of these catastrophic events was felt on an economic and an emotional level. Furthermore, as home sales have boomed these past few years, foreclosure activity was up 15.6% statewide (10.5% in the Bay Area) from the previous year. The consistent increases in interest rates this past year also should affect sale activity this coming year, both residential and commercial.

Despite tragic events and some less-desired trends in 2005, we still hold an extremely optimistic view heading into 2006. The United States still boasts the world's largest economy, and the Bay Area remains one of the most desirable commercial markets in the country, benefiting from its cutting-edge innovation, highly skilled labor pool, and exceptional quality of life. Through the 3rd quarter 2005, Silicon Valley had attracted nearly 40% of all venture capital funding for the year. To compare, New England was second highest., with 12%. And with record-setting investment sales in 2005 in the Bay Area, we are eager to see interior and exterior improvements being made to older building structures, the addition of new housing, a vast amount of retail projects going up, and the expansion of existing companies coupled with the introduction of new and growing companies. Talk of new construction is also a good sign for the upcoming year, as the "flight to quality" phrase the past two years has meant the filling of such buildings once thought to be too expensive. One key measure for our business is that of employment and job growth, which improved greatly from a year ago. California's unemployment rate was 5.1% at year-end 2005, non-seasonally adjusted, compared to 6.0% at year-end 2004, while the Bay Area's unemployment rate fell to 4.8% during the same reporting period.

Following a strong 2004 that exceeded many expectations in terms of activity, much of that same momentum rolled over into 2005. The commercial market in 2005 had a great start in the first half of the year with exceptional activity and decreased vacancy. In the latter half of the year, however, things did cool down just a bit across some of our markets. At the completion of 2005, Bay Area office vacancy stood at 14.0%, its lowest level in four years. Vacancy in the R&D market dipped below the 20% mark for the first time in three years during 2005 to 19.1%. In the warehouse market, vacancy was just 6.9% at year's end, its lowest mark in more than four years. And in the manufacturing market, vacancy was a healthy 5.5%. In terms of leasing activity, the Bay Area R&D market tallied 26.3 million square feet of gross absorption in 2005. And in the office sector, the four quarters in 2005 combined to achieve 20.4 million square feet of gross absorption, the highest annual total since 2000.

The warehouse and manufacturing markets absorbed 17.3 million and 10.5 million square feet, respectively, in 2005.

The retail market in 2005 continued to sizzle throughout the Bay Area. Currently, there are numerous mixed-use projects to include some sort of retail component either planned or already under construction throughout the Bay Area. Older, run-down malls are undergoing significant makeovers to keep pace with the more modern facilities. In addition, we continue to see either outdated, less functional commercial product or simply vacant land being used for retail, residential, or a combination of the two.

Last year, NAI BT Commercial (then BT Commercial) set several goals: to further improve our market knowledge, our coverage in Northern California, and the size of our professional roster to better serve our clients. And in 2005, NAI BT Commercial achieved all of these goals. During this past year, NAI BT Commercial made the commitment to fully integrate our services with those of our partners at NAI Global. We did this in order to provide our clients with a more complete menu of local and global real estate services. We successfully consolidated our Investment Services Group into a new facility in San Francisco to allow us to provide more insightful analysis, faster turnaround time, and generally a higher level of service to our clients. In February 2005, we acquired NAI Sacramento Valley Commercial to grow our position in one of California's fastestgrowing markets, Sacramento Valley, and to advance our goal to be the dominant brokerage in Northern California. Then in August 2005, we opened a new NAI BT Commercial/Terranomics Walnut Creek office to gain a deeper presence in the growing East Bay region. We also grew our Multi-Family Division regionally to 23 agents. NAI BT Commercial also continued to grow as a firm, increasing our office count to 14 locations throughout the extended Bay Area, including Sacramento, with an agent roster of 216 professionals.

I am also very pleased to announce that NAI BT Commercial and our agents were honored with several prestigious awards in 2005. Two of our most notable accolades included Commercial Brokerage Firm of the Year, presented by the East Bay Business Times, and Best Commercial Real Estate Company, presented by North Bay Biz's Best Readers Poll 2005. NAI Global also recognized our firm for our achievements and for the high quality of service that we provide to our clients and to our colleagues within NAI Global. For an in-depth look at some of our awards and the recipients, please log on to our web site at naibtcommercial.com under press releases.

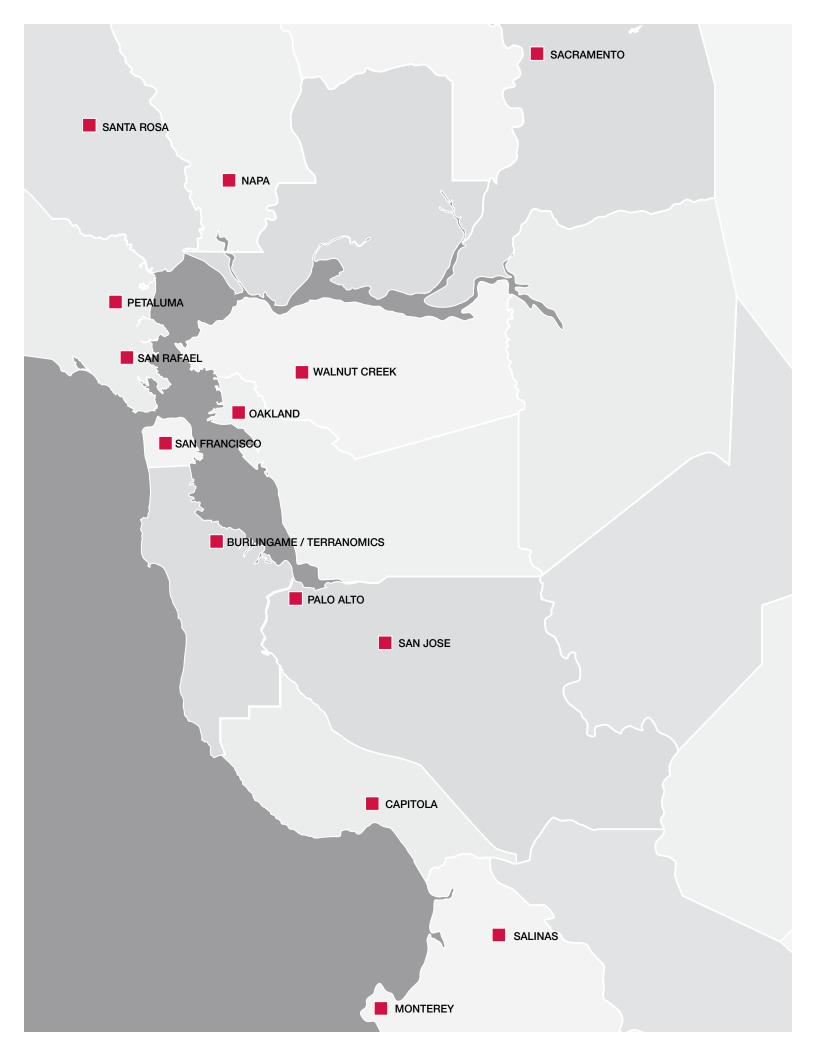
NAI BT Commercial understands that our success is the direct result of creating successful outcomes for our clients. It is this understanding that guides our vision and shapes our strategies. We at NAI BT uphold strong values that allow us to be the best people we can be in business: for our families, for our clients, and for ourselves. We seek individual initiative joined with collaboration and teamwork; integrity, trust, and creativity in concert with discipline and focus; and knowledge and expertise put into action.

We thank you for your continued support.

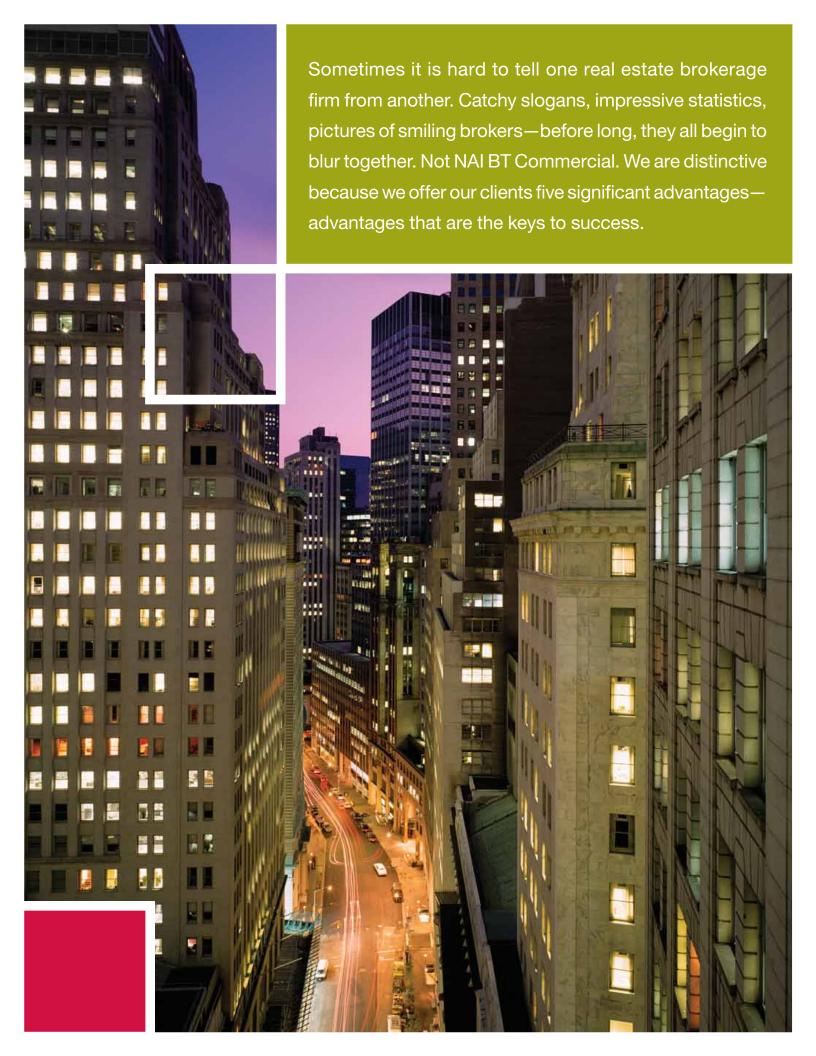


Best regards,

Mike Kamm Chief Executive Officer



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WHY WE ARE DIFFERENT:

RESPECTED MARKET LEADERSHIP

- More than 1,900 Northern California transactions in 2005 valued at over \$3.2 billion.
- Comprehensive offerings in office, R&D, industrial, retail, multi-family, land, and investment property.
- Service breadth: buyer/tenant representation, seller/owner representation, investment sales, strategic planning, market research, project management, and finance.
- More than 300 people: approximately 216 agents, 12 research specialists, and 75 staff.

INTIMATE LOCAL KNOWLEDGE OF NORTHERN CALIFORNIA'S MARKETS

- Local ownership committed to fulfilling our vision of becoming Northern California's preeminent commercial real estate services provider.
- Highly respected and widely used proprietary market reports, not third party data, which is collected and managed by our agents and 12 full-time research professionals. We know Northern California.
- The most agents (216) in the most offices (14).
- Our sales professionals are committed to serving the communities in which they live and work and serve on a myriad of boards and committees on behalf of non-profits and community organizations.

COLLABORATIVE CULTURE AND KNOWLEDGEABLE & EXPERIENCED PEOPLE

- We are a highly entrepreneurial firm that fosters creative and diverse talent.
- We recognize the power of the individual yet applaud team effort.

- Brokers seek out our collaborative environment to join our team. Over the past five years, more than 45 agents have left other firms to join ours.
- We are recognized by clients for our collaborative approach and superior results.
- We share best practices, client solutions, market data and information, and various other tools and resources through an open IT platform in order to better service our clients.
- Our internal training programs for junior brokers are among the best in the business.

COMMITTED TO CLIENT SERVICE

- Our clients are our primary focus. One measure of our success is the significant amount of repeat business that we handle for clients.
- We embrace technology to create efficiencies, provide useful information, and optimize the value of our clients' real estate assets.

WORLDWIDE CAPABILITIES THROUGH NAI GLOBAL'S MANAGED NETWORK

- Princeton, NJ-based NAI Global is a corporate real estate and investment services firm whose combined operations include more than 3,500 professionals in more than 300 markets in 40 countries.
- Founded in 1978, NAI Global and its affiliates completed \$35 billion in transactions last year.
- As Northern California's exclusive NAI Global partner, NAI BT Commercial offers its clients an additional advantage when seeking to buy, sell, or lease property nearby or half a world away.

OFFICE OVERVIEW

SAN FRANCISCO

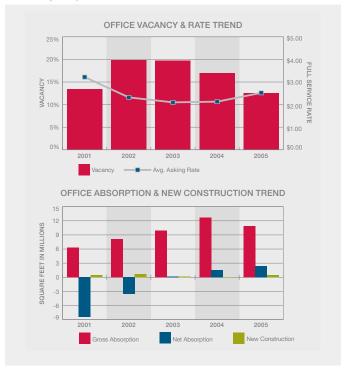
REVIEW

If 2004 was the year of transition from the bottom toward ascendancy, 2005 was all about the ascent. Every metric tells the same story: Supply is tightening and rents are increasing. Vacancy dropped from 16.3% at the close of 2004 to 12.6% at the close of 2005. Average asking rents crossed the \$30 per year barrier, closing 2005 at \$30.19, up from \$26.14 at the end of 2004. Perhaps most noteworthy was the change in net absorption. In 2005, net absorption for San Francisco office space was just shy of 2.4 million square feet. This is the highest annual net absorption in the past 10 years, with the exception of 1999.

Investment sales continued at a torrid pace, with major asset sales exceeding \$1.7 billion, not to mention millions of dollars worth of smaller deals. Ten major assets of 400,000 square feet or more traded in 2005. Purchase prices continued to rise, with new high-water marks being hit all over the market. Notwithstanding the aforementioned growth in rental rates, the pace of pricing is still considerably ahead of underlying leasing fundamentals, reflecting a significant bet on a rosy future by many investors.

FORECAST

The market may well prove many investors correct in 2006. Certainly we expect to see overall vacancy drop into the single digits. Overall economic health, as measured anecdotally by the growth projections of San Francisco tenants, would appear to be solid. We don't expect net absorption to be as high in 2006, yet we do anticipate strong gains. The aforementioned investment sales activity may have a self-fulfilling prophecy effect, given that new owners now have a much higher cost basis and therefore more incentive to push for higher rents. From our perspective, 2006 will be marked by diminishing supply and across-the-board increases in rental rates. The big question will be how patient owners are in holding out for what will be perceived as "artificially high" rents on commodity space (artificial in that they reflect the owners' cost basis more than the going rate for similar space).



I-80/I-880 CORRIDOR

REVIEW

The East Bay office market saw a significant decline in vacancy in 2005, from 16.1% (2004) to 14.5%. The overall average asking rate ended the year \$0.09 higher than the previous at \$1.91 per square foot full service and was the only region in the Bay Area to post an average below \$2.00. The annual net absorption for the East Bay office market recorded its second consecutive year of positive net absorption with 472,724 square feet. Gross absorption totaled 3.2 million square feet, which was on par with the past two years.

There continued to be a great degree of movement by tenants looking to upgrade their space at little or no additional cost in 2005. In addition, as the year progressed, we saw the percentage of tenants who were looking for relocation space increase. Also, there was a fair amount of tenant expansion activity, resulting in the positive net absorption mentioned above and aggressive competition among landlords.

FORECAST

In general, we expect vacancy to decline from its current level (14.5%) to approximately 13% by year-end. For the first time since the boom of 2000, we saw an increase in the overall asking rate for each of the last three quarters of 2005. We should continue to see an increase in the average asking rate for office product in the East Bay, posting a higher percentage increase in 2006. Annual net absorption will continue to be positive, as gross absorption will continue to hold at its historical average (approximately 3 million square feet). Overall, the pendulum is swinging back toward the landlord's favor, and by the end of 2006, we expect to see some concessions, such as free rent, disappear.



SAN MATEO

REVIEW

The San Mateo County office market was in the midst of a pronounced recovery in 2005. After five years of negative to neutral absorption, vacancy finally fell below the 20% mark at the end of the year, to close with 18.8% vacancy. Total availability dropped 1 million square feet during the year for a total of 5.9 million square feet at year-end. Sublease space accounted for 22%, or 1.3 million square feet, of the total availability. Through 2005, the average asking rate maintained between \$2.08 and \$2.10 per square foot full service, with the last three quarters all averaging \$2.10 per square foot full service.

Gross absorption totaled 4.7 million square feet in 2005, the highest-grossing year since 2000. For the second year in a row, net absorption was positive, closing the year with a positive 1.8 million square feet, indicating the net amount of space absorbed in the market.

FORECAST

In terms of overall vacancy, in 2006 we expect absorption to continue its positive trend and vacancy to decrease accordingly. Last year our absorption estimates were aggressive, but a significantly higher number of lease expirations/ renewals and a rapidly growing biotech sector proved them to be understated. In 2005 we saw an amazing 1.8 million square feet of positive net absorption. We predict 2006 to finish at over 1 million square feet of positive net absorption. Average asking rates also started to rise, albeit slowly, in 2005. This movement was led by the central San Mateo market and will continue to reach an average between \$2.15 and \$2.25 per square foot full service by year-end 2006.

OFFICE VACANCY & RATE TREND \$5.00 309 \$4.00 \$3.00 A 12% \$1.00 2002 2003 2004 2005 acancy Avg. Asking Rate OFFICE ABSORPTION & NEW CONSTRUCTION TREND SQUARE FEET IN MILLIONS 2002 2005

SANTA CLARA

REVIEW

After peaking as high as 18.0% two years ago, vacancy in the Santa Clara County office market has declined steadily for two straight years. Overall, vacancy closed 2005 at 13.4%. The average asking rate saw a \$0.04 increase over the past year to \$2.12 per square foot full service. Gross absorption in 2005 tallied 7.5 million square feet, slightly below its five-year historical average, while net absorption was a positive 1.2 million square feet, the second consecutive year to see positive annual net absorption. In fact, 2004 and 2005 were the first years to record back-to-back positive net absorption since 1999–2000.

FORECAST

The Santa Clara County office market has made great strides in the past two years, with more than 3.5 million square feet in positive net absorption. We expect this trend to continue through 2006. Vacancy should continue to decline to the 11% to 12% range. The average asking rate for office product in the county will continue to increase with the help of markets such as downtown Palo Alto and the attractive West Valley area—which have seen recent dramatic increases—possibly returning to the \$2.20 mark countywide.

With 20% of the available office product in the county, downtown San Jose maintains one of the highest vacancy rates of any downtown office market in the United States, and in 2005, vacancy continued to see an increase. However, with the continued improvement of the Valley's office market, additional housing units being added, and the fact that it is one of the nation's most attractive metropolitan locations, downtown San Jose is preparing for a recovery. Confidence of commercial owners such as Legacy Partners investing significantly in the downtown market in 2005 also adds further belief that this market is capable of such recovery.



R&D OVERVIEW

SAN MATEO

REVIEW

The vast majority of the R&D market in San Mateo County serves the biotech/life science industry. Overall, vacancy stood at 15.0% at the close of 2005. South San Francisco, the largest submarket in the county, has become an important hub of life science companies. Comprised primarily of Class A life science product, the R&D market had an average asking rate that was the highest of any region in the Bay Area, at \$1.54 per square foot NNN (Santa Clara County was a distant second at \$0.89 per square foot). Total availability finished the year with 2.6 million square feet, with sublease space accounting for 33% of the total.

The year 2005 saw reduced activity after an exceptionally robust 2004, which grossed over 2.5 million square feet due to Genentech's pre-lease of over 780,000 square feet. The county still had an impressive showing, comparable to 2003, with 1.3 million square feet in gross absorption. San Mateo County's annual net absorption was positive for the second consecutive year, finishing 2005 with a positive 259,000 square feet.

FORECAST

The San Mateo County R&D market will continue to experience growth, primarily from the biotech sector. Prime areas for growth include South San Francisco and possibly smaller pockets in south San Mateo County. With Genentech's continued expansion in South San Francisco and Amgen's acquisition of Tularik and entry into the Bay Area, we speculate this competition will spur even greater growth in the Bay Area. We also expect the software industry to see heightened activity in the coming years. One prime area for software activity is the 92 Corridor on the Peninsula. Adaptive reuse is another dynamic, as well as retail uses for functionally obsolete technology space. In 2006, we expect increased absorption, especially in the northern sector, with rental rates starting to trend upwards.

R&D VACANCY & RATE TREND 25% 20% 20% 15% 2001 2002 2003 2004 2005 R&D ABSORPTION & NEW CONSTRUCTION TREND 4 3 2001 2002 2003 2004 2005 New Construction

I-80/I-880 CORRIDOR

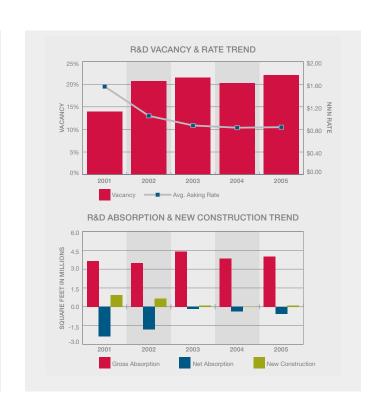
REVIEW

The I-80/880 Corridor R&D vacancy experienced a 180-basis-point rise from 2004 to end at 22.0% in 2005. The overall average asking rate for R&D product in the Corridor remains the most competitive in the Bay Area at just \$0.84 per square foot NNN. Gross absorption tallied 4.0 million square feet in 2005, slightly above 3.9 million in 2004 but below the 4.4 million square feet attained in 2003. Technology-heavy Fremont was home to the majority of the leasing activity in the region and reeled in some of the largest R&D transactions in the Bay Area in 2005, with two above 100,000 square feet. However, Fremont was also responsible for much of the negative net absorption.

FORECAST

The momentum heading into 2006 is somewhat positive. Venture capitalists poured more money into U.S. companies in 2005 than in any year since 2001, reflecting a growing appetite for Internet-related start-ups and later-stage deals. Net absorption will develop some positive momentum at the start of the year, which should carry on to year-end. Gross activity will continue to push above 4 million square feet by year-end as leases rollover and tenants take advantage of the affordable rates in the southern corridor. Sublease space will continue to burn off as vacancy drops below 20% at the close of 2006.

Asking rates will continue to experience marginal increases throughout 2006. Absorption will be highly variable between submarkets, and pricing stability may be several quarters away. As technology companies continue to grow, they will begin to fully utilize existing facilities and may begin to outgrow their current facilities toward late 2006. The trend is toward smaller, more office-oriented product and away from the large electronic assembly spaces.



SANTA CLARA

REVIEW

Santa Clara County houses 72% of the total R&D product in the Bay Area. The majority of the county's base is located in the city of San Jose, with 42.3 million square feet. Santa Clara County experienced a 268-basis-point decline in vacancy over the past year, from 21.5% to 18.9%. It is the first time vacancy has been below 20% in two years. The average asking rate was \$0.89 per square foot NNN. Sublease space fell to 6 million square feet in 4th quarter 2005, a decline of 4.25 million square feet since 2003. Approximately one-half dozen subleases above 50,000 square feet were signed in 2005.

Leasing activity in Santa Clara County in 2005 was exceptional, as both gross and net absorption achieved five-year highs, with more than 15 million square feet grossed and more than 3.7 million square feet of positive annual net absorption.

FORECAST

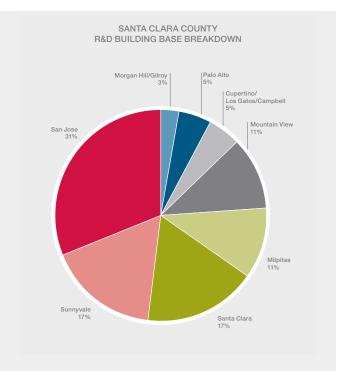
R&D vacancy should continue to steadily decline in 2006 as the Bay Area's commercial market continues to improve; as we draw further away from the economic decline that followed the turn of the century; and as affordable rates continue for space located in prime markets. The year 2005 exceeded expectations, and we expect 2006 to see further improvement, with vacancy continuing to decline but at a slower rate than in 2005. The overall average asking rate should see a small increase but still remain below the \$1.00 mark throughout the year, in the low to mid-\$0.90 range.

The news of Google and the City of Mountain View planning to construct approximately 1 million square feet of new office/R&D space at NASA Ames is seen as a healthy economic indicator, although it will not affect the amount of vacant office/R&D product next year. Although the growth of companies like Google and Yahoo! may not, single-handedly, heal the office/R&D sectors, it is seen as a precursor to other corporations that may experience recovery and get back into a growth mode.

MAJOR R&D USER DEALS SANTA CLARA COUNTY 2005

User	City	SF	Туре
General Dynamics	Santa Clara	359,000	Lease
EMC	Santa Clara	302,000	Lease
Integrated Device Technology	San Jose	263,039	Owner User Sale
Western Digital Corporation	San Jose	221,495	Lease Renewal/ Expansion
Komag	San Jose	188,303	Lease
Jabil Circuit Company	San Jose	181,656	Lease Renewal
Alps	Sunnyvale	175,998	Owner User Sale
Stryker Endoscopy	San Jose	165,000	Lease Renewal
IBM	San Jose	124,539	Lease
Fox Hollow	Mountain View	124,274	Lease
Comac	Milpitas	120,965	Lease
Equinix	Sunnyvale	119,756	Lease
Fortinet	Sunnyvale	107,030	Lease
Xilinx Corp.	San Jose	106,281	Sublease
Headway Technologies	Milpitas	97,272	Lease Renewal
VNUS Medical Technologies	San Jose	92,517	Lease
Qualcomm	San Jose	90,240	Lease





WAREHOUSE OVERVIEW

SAN FRANCISCO

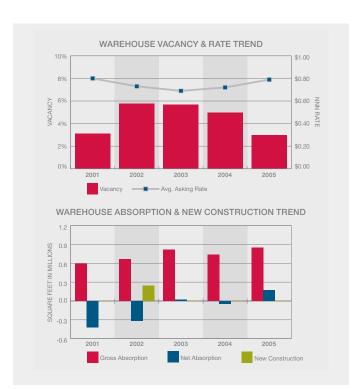
REVIEW

With only 19.4 million square feet of building base, the San Francisco County industrial market represents the smallest market in the Bay Area. The San Francisco industrial market ended 2005 with a vacancy of 3.0%, its lowest point since 3rd quarter 2001. All submarkets recorded vacancy rates below their respective levels a year ago. The average asking rate for industrial product experienced a modest comeback to \$0.79 per square foot industrial gross during the year, just a penny less than the \$0.80 per square foot back in 2001.

Market activity was dominated by smaller users below 20,000 square feet during the year, for both lease and sale. Smaller building sales remain robust in this market. Overall, gross leasing activity totaled 850,442 square feet in 2005, the highest level since 2001. Net absorption moved into positive territory in 2005, with 170,073 square feet absorbed from the market during the year. Larger requirements remain very difficult to find, as there is very limited product available above 50,000 square feet.

FORECAST

As a result of San Francisco's limited land area, housing demand and higher-end development will continue in trend. With demand expected to stay strong and supply kept in check by rare and expensive land and rising construction costs, the San Francisco industrial market inventory will stay flat in the near future. Current levels of activity are expected to remain stable in 2006. The renovation process of the contaminated Hunters Point Naval Shipyard will remain to be seen. It could take at least 10 years of construction for Miami-based Lennar and its San Francisco partners, Luster National, Inc., and Mariposa Homes, to complete the entire 500-plus-acresite of approximately 1,600 homes and 300,000 square feet of commercial space.



I-80/I-880 CORRIDOR

REVIEW

The East Bay warehouse market saw a considerable decrease of 160 basis points in vacancy from 2004, ending 2005 at 6.6%. Sublease space saw a slight decline to 1.0 million square feet, while direct space fell more than 1.2 million square feet, or 18.6%, from the previous year to 4.4 million square feet in 4th quarter 2005. The average asking rate dramatically improved from 2004, growing \$0.04 to end 2005 at \$0.39 per square foot NNN.

The I-80/880 Corridor achieved the highest gross absorption of any region in the Bay Area, with nearly 9.8 million square feet. Gross absorption was strong in the previous four years, totaling 10.3 million (2002), 9.2 million (2003), and 10.7 million square feet (2004). This region was home to eight of the 10 largest Bay Area warehouse transactions in 2005. Net absorption tallied 1.3 million square feet in 2005. In 2001, 4.4 million square feet was added to total availabilities through negative net absorption; the East Bay warehouse market has now absorbed all but 1.6 million square feet of that amount.

FORECAST

The forecast for 2006 is for a continuance of steady demand and shrinking vacancy. On the same path, rental rates will steadily increase, likely finishing the year 8% to 12% higher than in 2005. The bulk of the leasing activity will occur in the 50,000 square foot and under segment, while larger requirements (over 100,000 square feet) will experience challenges to locate space, forcing these users to either split their operations into multiple locations or seek alternatives farther east in the Tracy and Stockton areas. The scarce amount of land that is currently available, priced in the low to mid teens, will not pencil-out for industrial development, and cities are seeking higher employment-type uses or conversion to residential or general retail.



WAREHOUSE OVERVIEW

SAN MATEO

REVIEW

The San Mateo County industrial and warehouse market vacancy rate ended 2005 at 6.9%, the lowest vacancy rate in the past four years. In 2004, vacancy was at 7.6%. All seven submarkets in the county experienced a decrease in vacancy in the final quarter of 2005. Sublease space continued to play a role in this market, accounting for 27% of the total 2.6 million square feet of industrial and warehouse product remaining online at year-end 2005. A single listing of 488,000 square feet in South San Francisco, which is divisible, accounts for much of the available sublease space.

The average asking rate for industrial and warehouse product at the close of 2005 was \$0.66 per square foot NNN, compared to \$0.65 per square foot in 2004. Gross absorption for the San Mateo County warehouse and industrial market totaled more than 2.5 million square feet. Annual net absorption totaled a positive 222,429 square feet, indicating the net amount of space leased in 2005. This was the third straight year of positive annual net absorption.

FORECAST

The larger, less functional warehouse buildings in San Mateo County will continue to have their challenges. Expect functionally obsolete buildings that don't have proper clear heights, staging rooms, power, or parking to be turned over to their highest and best use, such as bio, lab, retail, or residential. Due to its current streak of quarterly declines, vacancy is expected to maintain at low levels, possibly hitting below 6% by year-end 2006. The average asking rate will also certainly rise above its current level of \$0.66 NNN to \$0.68 NNN or higher in 2006. With the recovery of the other markets and product types, warehouse product is anticipated to continue to thrive, with lease demand strong and purchase demand remaining exceptionally strong.



SANTA CLARA

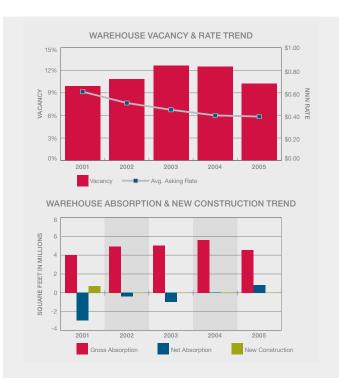
REVIEW

The Santa Clara County warehouse market is the second largest in the Bay Area at 32.6 million square feet, with the city of San Jose alone making up more than half the county's building base. Vacancy drew toward single-digits in 2005, from 13.2% in 2004 to 10.5% at year-end 2005. Since 2002, vacancy has maintained between 10% and 14%. The average asking rate for warehouse product increased \$0.02 from 2004 to \$0.39 per square foot NNN at the close of 2005. Annual net absorption was a positive 804,000 square feet in Santa Clara County, a tremendous turnaround from the negative 577,000 square feet in 2004.

FORECAST

The building base for warehouse properties in Silicon Valley shrank by 902,287 square feet, or 2%, in 2005 as properties were redeveloped for residential and other commercial uses. The ongoing erosion of building base and a lack of new develop-ment will reduce user options, creating a more competitive environment that will allow for rental growth throughout the market in 2006. Warehouse sites at Campbell Avenue and Newhall Street (448,403 square feet); Auzerais Avenue (122,313 square feet); and Sunny Court (115,371 square feet) in San Jose, along with Curtis Avenue (216,200 square feet) in Milpitas, were converted to residential use in 2005. Well-located warehouse properties throughout Silicon Valley will continue to be targeted by residential developers. Going forward, we expect that the base will continue to shrink by 1% to 5% per year as redevelopment projects are approved and warehouse owners cash in on their infill sites throughout Silicon Valley.

With overall vacancy at less than 11% and with higher fuel and relocation costs, existing tenants will tend to renew existing leases rather than relocate. These market factors will help minimize vacancy throughout Silicon Valley and allow for real rental growth in the range of 10% to 15% for well-located quality product.



RETAIL OVERVIEW

SF BAY AREA RETAIL MARKET

SAN FRANCISCO COUNTY

San Francisco retail activity for 2005 was brisk in both the sales and leasing arenas. Retail feeders, such as visitor counts, convention attendance, and hotel occupancy rates, all posted positive showings for San Francisco in 2005. Visitor counts are estimated to be 16 million plus. Convention attendance increased, jobless rates decreased, and hotel occupancy levels ended the year with an annual average near 77%. A new 276-room St. Regis hotel opened in 2005, while InterContinental is building a 550-room hotel near the convention center due to open in 2008.

Van Ness Avenue is undergoing a tremendous transition with several spaces remaining vacant two to five years, such as the former Hard Rock Café, Bridal Galleria, and Great Western Bank spaces. New vacancies include the former Leather Factory, Venture Frogs at 1000 Van Ness, and Good Guys stores. AMC Theatres will be closing at 1000 Van Ness Avenue in a few months. New tenants include T-Mobile and Sleep Train. Rents range from \$28 to \$36 per square foot.

Westfield America and Forest City continue their leasing efforts for a fall 2006 opening of the Bloomingdale's-anchored center adjacent to the San Francisco Centre. In addition to the 330,000 square foot Bloomingdale's, Century Theatres has reportedly committed to the site. Tenant announcements have not been made, but retailers rumored to be considering the site include names such as Bristol Farms, Borders Books, Taylor's Refresher, J. Crew, Adidas, Ruehl, Eddie Bauer, Burke Williams, Charles Phan, and the Lark Creek Restaurant Group.

Mills Corporation may give up the fight for its long-sought approvals on the waterfront property at Piers 27-31. The developers may sell their development rights to the 200,000 square feet of planned retail and restaurants. Another waterfront development at Piers 1½, 3, and 5 is under way with a projected summer 2006 opening. The project is a \$50 million renovation of the piers by Pacific Waterfront Partners along with teachers' pension fund CalSTRS, a majority partner. The waterfront development will include 16,000 square feet of restaurant, café, and retail space and 40,000 square feet of public access, including the Port Walk. Also on the restoration bill will be approximately 69,000 square feet of Class A office space intended for high-end boutique operations.

Retailer and restaurant demand for space in San Francisco remains strong. In 2006 we should continue to see firm rents in most corridors and an increase in "key money" buyouts in the most sought-after areas.

Demand for restaurant space is high, given the positive consumer psyche on the economy, the San Francisco lifestyle, the Bay area's breeding ground of food talent and entrepreneurship. 2006 anticipated openings include DiMaggio's Italian Chophouse in North Beach, Tamarine Restaurant by the convention Center, and Pat Kuleto's new venture in Rincon Park.

MARIN COUNTY

The retail market in Marin County remained very stable throughout 2005, with continued strong tenant demand for the top-performing shopping centers. With a base of approximately 4.8 million square feet for centers over 10,000 square feet (48 properties), tracked by NAI BT Commercial's Terranomics Retail Services division, the overall vacancy rate was approximately 3.3%. This number is a slight improvement over 2004, as many of the larger vacant retail spaces in the county were absorbed. In addition, rental rates continued to climb to historically high levels and triple-net expenses typically increased due to the rising cost of property and liability insurance. New tenant entries into the market in 2005 included Smart & Final (San Rafael); Babies "R" Us and Panda Express (Gateway Shopping Center, Marin City); Tilly's (Vintage Oaks at Novato); Pacific Catch and Lucy (Corte Madera Town Center); and Elephant Pharmacy (San Rafael).

The city of Novato was looking to increase its sales tax-generating retail presence with the announcement of two major downtown projects in 2005. The Prado Group of San Francisco is developing the new Trader Joe's anchored project called The Village at Novato. This will be the second Marin County location for Trader Joe's, which currently operates a store in the Montecito Shopping Center in San Rafael. Additionally, the Lalanne Group and Signature Properties received entitlements for the new Whole Foods mixed-use project at the former Pini Mill and Railroad Depot sites, which will also include 125 condominiums. This will be Whole Foods' third location in Marin.

The city of San Rafael, which is also looking to increase its retail sales tax base, approved the second location for Best Buy in Marin County. The electronics retailer is under construction on its new 32,000 square foot facility at the former Labcon site fronting Hwy 101. Mill Valley's Strawberry Village, anchored by its new 45,000 square foot Safeway, has almost completed its "Italian Tuscan"-themed expansion and remodel, with new tenants such as Smith & Hawken, Pizza Antica, Jos. A. Bank, and The Spanish Table. The Corte Madera Town Center is replacing Marshalls with a Barnes & Noble superstore. The Village at Corte Madera continues with its tenant-upgrade program, as the center is part of the company's high-end Lumenati portfolio. Vintage Oaks at Novato and the City of Novato continue to work with Costco on the proposed expansion of 30,000 square feet, which would increase the building to approximately 150,000 square feet.

Anchored shopping centers in Marin continue to trade at historically low cap rates (6.5% and below). This phenomenon continues to demonstrate that buyers are willing to pay top price for properties that are virtually impossible to duplicate in this entitlement-sensitive area with little or no vacant land to develop. A prime example of this phenomenon is the sale of 8.85 acres of undeveloped but commercially zoned Albertsons land in Novato to Grosvenor International in the 2nd quarter of 2005. The property was purchased by Grosvenor for \$17.5 million, which equates to approximately \$45 per square foot. Grosvenor is planning to develop a 104,000 square foot neighborhood shopping center on the site that will be anchored by Safeway.

I-80/880 CORRIDOR

The East Bay retail market is extremely active and should continue its rapid expansion and evolution over the next several years.

In Fremont, Pro Logis has completed phase one and two of its 8.3 million square foot master-planned Pacific Commons project, including 903,900 square feet of retail. The remaining phase three and four are currently under construction and will be completed September 2006. Shop space is leasing at \$48 per square foot annually. There are four additional retail projects surrounding Pac Commons that are planned or currently under construction, such as Pacific Plaza, which is anchored by Starbucks and MMM Carpets. East of Pac Commons, a new Wal-Mart at I-680 and Auto Mall Pkwy. opened in late 2005, with exceptionally strong sale results. Further news in Fremont, in January 2006, Kimco sold the majority of its ownership interest in Fremont Hub to Crow Holdings.

In Newark, Sand Hill Property Company plans to demolish and re-construct their NWC Mowry at I-880 retail project which will create 205,163 square feet of new anchor and pad space on 14.1 acres.

Target and Circuit City opened in mid-2005 at Whipple and I-880 in Hayward, anchoring two separate developments at that intersection. Approximately 16,000 square feet of shop space accompanied Target, anchored by Panda Express and T-Mobile, and 11,000 square feet of shop space accompanied Circuit City, anchored by Starbucks and Ono's Hawaiian BBQ. In addition, another Target is planned in north Hayward in fall 2006 at Hesperian and A St., consisting of 190,000 square feet.

Kaiser's recent purchase of the 63 acre former Albertsons Distribution Facility will give San Leandro a new potential retail project on 20 acres in 2007 at I-880 and Marina Boulevard, which will be highly sought after by big boxes. In San Leandro, the existing Target will be replaced with a new Wal-Mart at Lewelling Boulevard and I-880 within the next 18 months.

Just north, on I-880 at Hegenberger Rd. in Oakland, Simeon Properties developed a 250,000 square foot retail power center, anchored by a 143,000 square foot Wal-Mart that opened in fall 2005. Red Mountain Retail Group is rehabbing the old Albertsons at High St & Bancroft with a new 46,000 square foot Mi Pueblo anchored retail project to be completed by year-end 2006.

In Alameda at Park & Otis, Harsch Investments will spend over \$80 million in an exciting renovation and expansion of Alameda Towne Centre, increasing the overall project by over 250,000 square feet to 712,000 square feet. Field Paoli, the architecture firm who designed Stanford Mall and Corte Madera, is transforming the Centre's design and landscaping along with adding sculptures, fountains and art work. Terranomics is re-merchandising this project into a regional-lifestylecommunity center, including new anchors, shops and eateries, which will enjoy the beach front views of the San Francisco Bay. Regency Center's Alameda Island project, Bridgeside Center, is a new 103,000 square foot Nob Hill-anchored center at Tildon & Blanding that is to be competed fall 2006.

In Albany at I-80 & Buchanan, Target has opened a new twostory store and is in the process of selling a 1-acre parcel for an adjacent retail shop development.

In high growth East Contra Costa County, Oakley has a proposed new Wal-Mart to be developed by Potter-Taylor and Co. at the NEC Hwy 4 & Bridgehead. In Antioch, Transcan Development proposes a 200 acre, 1 million square foot mixeduse development and a new BART station. Wal-Mart's first East Bay Super Center, combining grocery and merchandise, involves the proposed expansion of their existing Williamson Ranch Plaza store. Winco Food's added a second store by its recent purchase of the former Pace Warehouse building in North Park Plaza on Hwy 4 in Pittsburg.

I-680 CORRIDOR

Clayton Valley Shopping Center, a 237,000 square foot rehab project in east Concord, has a proposed new grocery anchor and various eateries and shops to join the existing Yardbird's (a Home Depot Company), Longs and Tuesday Morning anchors. Construction began in 2005 with project completion in 2006.

Developed by Shapell Industries, The Plaza at Gale Ranch located at Bollinger Canyon and Dougherty is under construction with a new super Safeway-anchored upscale retail project designed to cater to the affluent San Ramon Hills population and is within a two-mile drive to Bishop Ranch-estimated completion scheduled for spring 2007. Crow Canyon Crest, an 11,000 square foot new strip development, opened fall 2005 in front of Crow Canyon Commons at Hwy 680 and Crow Canyon Road. Federal Realty Investment Trust, developer of Santana Row in San Jose, recently purchased the 228,000 square foot Crow Canyon Commons at I-680 and Crow Canyon Rd. in San Ramon for \$47.5 million.

Blake Hunt Ventures' Emerald Place project in Dublin is planned to begin construction spring 2006 on 137,000 square feet of lifestyle retail adjacent to the 270,000 square foot IKEA to be completed late 2007. Regency Centers proposes a 380,000 square foot Target-anchored project at Dublin Boulevard and Tassajara with completion in early 2008. At Dublin Ranch, just north of Regency's project, Grafton Station is a 230,000 square feet, Lowe's-anchored project to be developed by Jim Tong. Opening is scheduled for late 2007.

In Pleasanton, Regency Centers plans to start construction in fall 2006 on a 143,000 square foot, Home Depot-anchored project at the SEC corner of Stanley Boulevard and Bernal Avenue.

SAN MATEO COUNTY

On Broadway, the major retail development in downtown Redwood City, will open in May 2006. The project is anchored by a 20-screen Century Theatres and Cost Plus Imports. The Courthouse Square is another redevelopment for the city. This space will provide a comfortable place for people to gather, ideal for community events that will spur economic growth in the downtown area.

The 650,000 square foot Bridgepointe Shopping Center anchored by Target was sold this year to SPI Holdings for approximately \$90 million, showing the incredible demand to own retail, as two years earlier it had sold for \$56 million, with the only real change being the compression of cap rates from

RETAIL OVERVIEW

SF BAY AREA RETAIL MARKET

8.3% to less than 6%. Bridgepointe added two exciting retailers to the marketplace with the opening of Ulta Salon and BJ's Restaurant & Brewhouse.

The Shops at Tanforan, formerly known as the Tanforan Mall, completed a major renovation of the mall in 2005. Anchored by JC Penney, Sears, and Target, the completely renovated center features all-new retail and dining, including BJ's Restaurant & Brewhouse, Barnes & Noble Booksellers, Old Navy, Ulta Salon, Victoria's Secret, Guess, Forever 21, and over 100 other stores. A new state-of-the-art cinema Century Screen Theatres (opening in 2006), along with new amenities such as soft seating areas, Wi-Fi, family restrooms, a children's play area, and an exciting new food court, make The Shops at Tanforan the new shape of shopping for the northern Peninsula.

Daly City's retail sector continued to flourish as population growth added to the already high demand in the area. Taxable retail sales are among the highest in San Mateo County, and recent vacancy rates have been low. In total, Daly City boasts approximately 2.2 million square feet of retail space. In 2005, the 597,000 square foot Westlake Shopping Center in Daly City completed a major renovation. Home Depot will open in summer of 2006 and will join Safeway, Cost Plus, and Linens 'n Things. Southgate Avenue runs through the middle of the shopping center, adding a main street feel.

The Fairfield Transit Village shops next to Costco, Kaiser Hospital, and the new BART station were completed in South San Francisco. The new village is anchored by Trader Joe's and is part of a 370-unit high-density housing project.

In San Carlos, the landmark Breuners store that has freeway visibility from Hwy 101, next to the relatively new Best Buy, closed in 2005 and will be replaced by 100,000 square feet of 20,000 to 40,000 square foot category retailers. The redevelopment of the site should be complete in 2007. Trader Joe's made its loyal customers happy by opening a new store on El Camino Real next to Walgreens.

The Safeway on El Camino in Menlo Park is proposing to the City a new 65,748 square foot store with an attached 11,500 square foot structure for other retail tenants. Safeway would remain in operation as the demolition and construction take place. No retail tenants have been signed, as the City still needs to grant final approval.

SANTA CLARA COUNTY

Santa Clara County, the most densely populated in the Bay Area, has "buying power" that is among the highest levels in the country. Santa Clara County is home to some of the most prominent and successful shopping centers in the Bay Area and continues to rehab its old centers, while development continues on its limited remaining land. New retail that is under construction in 2006: In Sunnyvale - Lawrence & Duane, El Camino & Maria, Forum's shops at El Camino & Mathilda; In Mountain View—Terra Bella & Shoreline, Pear & Shoreline, Charleston Plaza at Hwy 101 & Rengstorff; In Campbell—Almarida Place at Hwy 880 & Hamilton which will include Kohl's, Bed Bath & Beyond, eateries and specialty shops opening summer 2006, 330 Hamilton, and Onyx at Bascom & Campisi; In San Jose—Bird & San Carlos,

Silver Creek Valley Plaza at Silver Creek Valley & Fontanoso, Montecito Vista Village at Monterey & Goble, 2955 Monterey Rd. Retail, The Plant at Curtner & Monterey, and 879 Coleman Ave Retail at Hedding; In Milpitas—Calaveras Center at Hwy 237 & Hillview, and the complete rehab of Milpitas Town Center which will add a new Safeway and residential.

One of the County's most admirable stories is Santana Row's success-a luxury mixed-use center combining lifestyle retail, entertainment, hospitality and housing. Santana Row has quickly become a model for newer developments and redevelopments, as developers try to emulate and keep pace with the "Rows" success. Located across the street from Valley Fair Mall, which does \$750 per square foot in annual sales, Santana Row features retailers Crate & Barrell, Container Store, Best Buy, Gucci, Escada, Urban Outfitters, Anthropologie, and Z-Gallery, along with 29 eateries including Maggiano's, Blowfish Sushi, Straits Café, Amber India, Thea Mediterranean, Left Bank, and Consuelo Mexican Bistro. The Row is also home to Cinearts, a branch of Century Theatres, with six auditoriums specializing in independent and art films. With the success of housing sales and prices that reached up to \$750 per square foot for 700 square foot lofts, Federal Realty Investment Trust is seeking to increase housing by 33%. Santana Row also plans for additional expansion of its retail and hotel.

In Cupertino, Landmark Properties' redevelopment of Vallco Fashion Park is creating an expansion area called the Rose Bowl Site, consisting of 105,300 square feet new retail anchor/market, restaurant, specialty shops, and housing. This expansion area is opposite JC Penny's at Stevens Creek & Wolfe. A new 16-screen rooftop AMC Theaters Megaplex is to open fall 2006, and construction on a new 6-acre mixed-use development is well underway across the street.

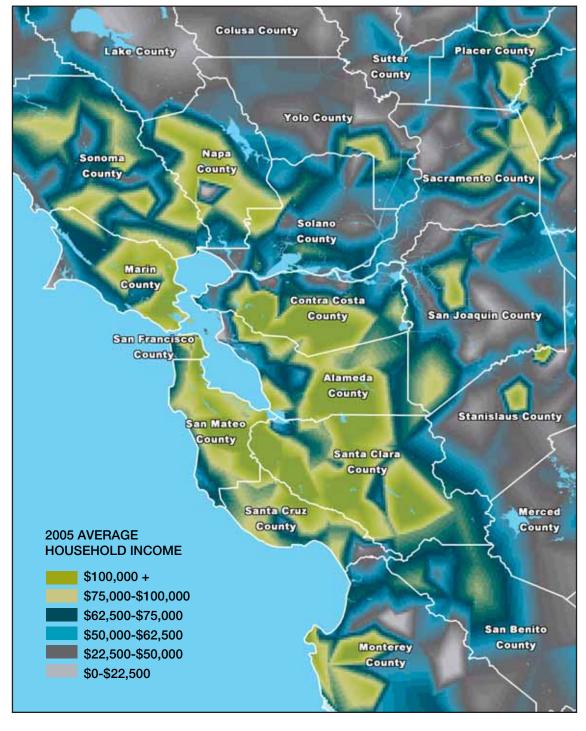
San Jose's newest self-titled retail gem, San Jose MarketCenter, will open in March 2006. At 360,000 square feet, this Power Center developed by Cousins Properties (at Coleman & Taylor Street), has already generated tremendous success, attracting major anchors like Target, Marshall's, PetSmart, Office Depot, Michael's, and Cost Plus. Eateries/specialty shops such as Starbucks, Chili's, Sleep Train, T-Mobile, Jamba Juice, Una Mas, Sweet Tomatoes, and Payless Shoes have joined the project. Further news in San Jose, a Home Depot is planned for the old Mervyn's site at Story & Capitol, the first Home Depot to arrive in the southeast quadrant of San Jose.

Eastridge Mall's \$140 million renovation is nearly complete, including the addition of a Main St. retail plaza on Quimby Road. General Growth captured Bed Bath & Beyond, Barnes & Noble, Chili's, Macaroni Grill, and AMC 16-screen Megaplex Theater to market to the elite suburbs and urban uptown households that have evolved in this demographic area. Westrust has proposed The Plant on the old G.E. site at the NWC Monterey & Curtner. The Plant proposed 638,474 square foot to be anchored by Target, Home Depot and various junior anchors, with completion estimated for July 2007. Nearby, Telecommunication Hill has 2,550 homes are being constructed. Westgate West plans to begin its major renovation designed by Kenneth Rodrigues & Associates, including 41,705 square feet additional GLA in June 2006.

In Sunnyvale, Forum Development began demolition of Sunnyvale Town Center to be replaced with The Forum at Sunnyvale Town Center comprised of 900,000 square feet of retail featuring Macy's, Target, and a new Century Theatres, 200,000 square feet of office space, and 292 residential units. Completion is slated for 2007.

Morgan Hill shopping Center, located at Hwy 101 and Cochrane, will start construction on 657,250 square feet to be anchored by Target in Phase I with completion expected summer 2007. Madrone Village, a 73,000 square foot retail center, is proposed on the NWC of Hwy 101 & Cochrane. In fall 2005, Morgan Hill's

Tennant Station completed its renovation and addition of GLA to include a new Safeway and expanded theaters at Tennant & Monterey. Santa Clara County's first Super Wal-Mart, consisting of 220,000 square feet, opened in Gilroy at Hwy 101 & Hwy 152 in fall 2005. Amidst over 1 million square feet of new retail at Hwy 101 and Hwy 152 in Gilroy, developers plan to add three new retail centers (120,000 square feet, 100,000 square feet, and 65,000 square feet) in 2006 and 2007 along with three new business parks to fill out the remaining open land in this area. Additionally, The Filice Family is proposing a new Walgreens and additional retail pad at First & Wren, and Imwalle Properties Development is building a new center at First & Santa Teresa in Gilroy.



MULTI-FAMILY OVERVIEW

YEAR 2005

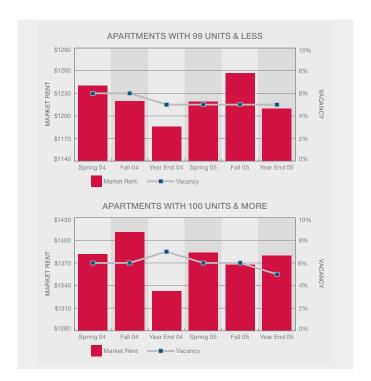
OVERVIEW

The Multi-Family Investment Division is NAI BT Commercial's newest specialty division. It is headed by Ric Russell, one of the most well-respected brokers and leaders in the Northern California/Nevada multi-family market. The aim of the Multi-Family Investment Division is to have experienced apartment brokers in each of the 14 NAI BT Commercial offices, creating a network of quality professionals capable of serving the needs of apartment investors at the highest level. Our presence in the major submarkets of the region will be unparalleled in the apartment brokerage community.

NAI BT Commercial's Multi-Family Division has created two indexes for the Bay Area apartment rental market. The first index is for complexes with 99 units & less while the second index covers buildings with 100 units & more. Each index is comprised of a selection of professionally managed multi-family properties in the 9 Bay Area counties. The tables shown below specify vacancy for each county and for the region as a whole. These tables also detail average rental rates by unit type.

APARTMENTS WITH 99 UNITS & LESS

Bay Area apartment properties with 99 Units & Less posted a 5% vacancy rate at Year End 2005. Local vacancy figures remain unchanged for the 4th consecutive NAI BT Commercial Apartment Market Report. A region low 4% average vacancy rate was reported by properties in the Alameda, Contra Costa, San Francisco, San Mateo and Sonoma County indexes. Meanwhile, Bay Area apartment properties in the index reported slightly lower rental rates from the Fall 2005 Report. Average rents for properties in this product segment are down from \$1,257 to \$1,210 per month. Contra Costa, Marin and Santa Clara Counties were the only Bay Area submarkets to enjoy net rental rate gains in the last four months.



APARTMENTS WITH 100 UNITS & MORE

Properties contributing to the NAI BT Commercial Index with 100 Units & More have enjoyed increasing market rents and declining vacancies for Year End 2005. The vacancy factors for larger local properties have moved steadily downward from a recent high of 7% at Year End 2004 to a low of 5% in the final months of this past year. Meanwhile, rental rates have held steady throughout this period. Average rents are up from one year ago and are down only \$4 from the year high reported in the Spring 2005 Report (\$1,384). Of the 9 Bay Area counties, only the Marin, Solano and Sonoma submarkets reported rent slippage from the previous Fall 2005 Research Report.

YEAR 2005 BAY AREA SALES MARKET

Bay Area apartment properties with 10 or more units continue to trade at increasingly higher prices. Statistical highlights include:

- The number of sales transactions declining 14% from Year 2004 to Year 2005
- Total market transactional volume growing 39% from \$2.4 billion in Year 2004 to over \$3.3 billion in Year 2005
- The average apartment property sold in Year 2005 was 46 units, up from 33 units last year
- CAP Rates continued their march downwards; since Year 2001 the average CAP Rate has compressed 26% from 7.08% to 5.22%.

SALES MARKET: 2		OMPARISON	
NUMBER of SALES			
Year 2	2005	476	
Year 2	2004	556	
Price per SQ FT			
Year 2	2005	\$201.41	A
Year 2	2004	\$169.42	T
PRICE per UNIT			
Year 2	2005	\$170,227	A
Year 2	2004	\$139,134	T
CAP RATE			
Year 2	2005	5.22%	
Year 2	2004	5.83%	
		,	

MULTI-FAMILY OVERVIEW

	Vacancy	Market Rents
Alameda County		
Year End 2005	4%	\$1,109
Year End 2004	5%	\$1,086
Contra Costa County		
Year End 2005	4%	\$1,139
Year End 2004	6%	\$1,086
Marin County		
Year End 2005	5%	\$1,506
Year End 2004	7%	\$1,341
Napa County		
Year End 2005	5%	\$1,026
Year End 2004	5%	\$1,034
San Francisco County		
Year End 2005	4%	\$1,715
Year End 2004	4%	\$1,659
San Mateo County		
Year End 2005	4%	\$1,331
Year End 2004	5%	\$1,227
Santa Clara County		
Year End 2005	6%	\$1,214
Year End 2004	7%	\$1,221
Solano County		
Year End 2005	6%	\$947
Year End 2004	7%	\$970
Sonoma County		
Year End 2005	4%	\$1,001
Year End 2004	6%	\$1,076
Bay Area		
Year End 2005	5%	\$1,210

	Vacancy	Market Rents
	vacancy	Market Hents
Alameda County		
Year End 2005	5%	\$1,328
Year End 2004	5%	\$1,145
Contra Costa County		
Year End 2005	5%	\$1,202
Year End 2004	4%	\$1,125
Marin County		
Year End 2005	4%	\$1,433
Year End 2004	5%	\$1,526
Napa County		
Year End 2005	7%	\$1,171
Year End 2004	11%	\$1,208
San Francisco County		
Year End 2005	4%	\$2,010
Year End 2004	7%	\$1,923
San Mateo County		
Year End 2005	3%	\$1,628
Year End 2004	6%	\$1,506
Santa Clara County		
Year End 2005	5%	\$1,514
Year End 2004	7%	\$1,422
Solano County		
Year End 2005	5%	\$1,019
Year End 2004	7%	\$1,064
Sonoma County		
Year End 2005	8%	\$1,118
Year End 2004	9%	\$1,082
Bay Area		- '
Year End 2005	5%	\$1,380
	U , U	Ψ.,000

APARTMENTS WITH 99 UNITS & LESS

County	Vacancy			Averag	je Rent		
		OVERALL	Studio	1+1	2+1	2+2	3+2
Alameda	5%	\$1,328	\$826	\$1,116	\$1,689	\$1,513	\$1,499
Contra Costa	5%	\$1,202	\$1,020	\$1,075	\$1,182	\$1,412	\$1,323
Marin	4%	\$1,433	\$794	\$1,312	\$1,378	\$1,689	\$1,993
Napa	7%	\$1,171	\$750	\$981	\$1,086	\$1,356	\$1,683
San Francisco	4%	\$2,010	\$1,365	\$1,724	\$1,960	\$2,400	\$2,599
San Mateo	3%	\$1,628	\$1,067	\$1,304	\$1,530	\$1,865	\$2,372
Santa Clara	5%	\$1,514	\$880	\$1,191	\$1,368	\$1,677	\$2,453
Solano	5%	\$1,019	\$829	\$948	\$940	\$1,127	\$1,250
Sonoma	8%	\$1,118	\$780	\$921	\$1,115	\$1,188	\$1,583
TOTALS	5%	\$1,380	\$924	\$1,175	\$1,361	\$1,581	\$1,862

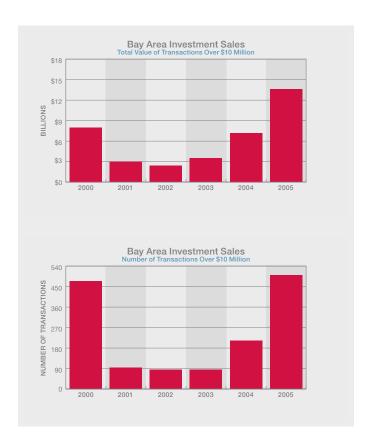
APARTMENTS WITH 100 UNITS & MORE

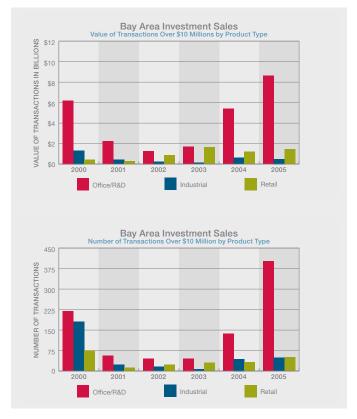
County	Vacancy	Average Rent					
		OVERALL	Studio	1+1	2+1	2+2	3+2
Alameda	4%	\$1,109	\$748	\$914	\$1,214	\$1,186	\$1,482
Contra Costa	4%	\$1,139	\$888	\$934	\$1,077	\$1,418	\$1,378
Marin	5%	\$1,506	\$900	\$1,187	\$1,580	\$1,468	\$2,031
Napa	5%	\$1,026	N/A	\$891	\$1,028	\$1,045	\$1,140
San Francisco	4%	\$1,715	\$1,118	\$1,607	\$1,870	\$2,264	n/a
San Mateo	4%	\$1,331	\$797	\$1,021	\$972	\$1,386	\$1,978
Santa Clara	6%	\$1,214	\$984	\$889	\$1,069	\$1,437	\$1,693
Solano	6%	\$947	\$744	\$813	\$866	\$989	\$1,321
Sonoma	4%	\$1,001	\$650	\$876	\$1,043	\$1,032	\$1,403
TOTALS	5%	\$1,210	\$854	\$1,015	\$1,191	\$1,358	\$1,553

YEAR 2005

Just when you thought that the Bay Area investment market couldn't get any crazier, it did—it got a lot crazier. Case in point: San Francisco's landmark Bank of America building sold in 2004 for a near-record \$825 million, or \$458 per square foot. Amazingly, the BofA building went back on the block in 2005. More amazingly, a group trading out of a New York City apartment put it in contract in excess of \$1 billion, or \$580 per square foot. The rumored cap rate falls in the sub-5% range. The potential one-year profit on this stabilized core asset: \$225 million for a return in excess of 25%. And that's just the start of it.

office sales volume. Meanwhile, pension funds and insurance companies continue to boost their real estate allocations. In a trend that could directly impact local private capital buyers, these institutions are beginning to shift from their traditional conservative asset classes into more risk-oriented opportunistic plays. Currently, private investors and operating partnerships dominate this arena. It remains the one place where they do not have to compete on price with the larger buyers. We will be interested to see what happens if institutions really do make a major push into this market segment.





A review of some basic numbers helps to put this past year in perspective. Last year saw a near-record sales volume of \$7.2 billion, double the prior year's total. Well, 2005's volume almost doubled that of 2004, hitting a staggering \$13.6 billion for the overall Bay Area. Cap rates continued to decline, falling 100 basis points on CBD office product to the current 6.3%. Cap rates on suburban office buildings range between 7% and 8%, down approximately 50–100 basis points, depending on the market. And while retail and industrial cap rates remained relatively stable, the R&D market saw rates tumble by 140 and 280 basis points in the Silicon Valley and San Francisco Peninsula, respectively. Sales volume in the R&D sector soared by 275%, more than tripling the previous year's total.

One naturally wonders what is driving this trend. In our review of 2004, we noted that commercial real estate stood out as the "least worst" investment alternative. This observation remains accurate. Even at low cap rates and single-digit IRR's, real estate is outperforming the stock and bond markets. Foreign investors in particular are placing increasing amounts of capital into the San Francisco market, accounting for one-third of the City's

But what about the pricing? Buyers are underwriting assets based upon significant increases in market rents. While the overall Bay Area market is improving, it is taking its time doing so. Many are beginning to question the wisdom of some of this underwriting. Silicon Valley veteran Carl Berg noted that he has decided to remain on the sidelines for the time being. To justify the prices, Mr. Berg told Wall Street analysts recently, Silicon Valley buyers today will have to see "substantial" increases in rents in the next several years. If they don't, "you have a whole bunch of idiots who are really going to lose a lot of money." Note again who the sellers have been in this recent tidal wave of activity. They have been your local private players—companies like Shorenstein, Bedford, Peery-Arrillaga, Vintage Properties, and Reynolds & Brown—Mr. Berg's peers. Do they know something all those institutional MBAs don't?

Regardless, the maddening pace of the past two years seems to be abating. Pricing in the retail and industrial markets appears to already have stabilized. Office cap rates probably can't go much lower. The R&D market remains the one area where buyers are pushing the envelope. Still, several larger Silicon Valley portfolio

offerings languished in 2005. The number of new offerings coming to market is down significantly. This is especially true of the larger \$50 million–plus assets. Oddly, we are seeing a rather

sharp uptick in new deals below the \$50 million mark. Maybe with all the trophy and portfolio deals out of the way, buyers can actually have time to focus on some smaller assets.

Cap Rate Movement

Market	2005 Cap Rate	Change in Basis Pts
Office CBD	6.3	-100
Office Suburban	7.0 - 8.0	-50 to -100
Retail	6.5	-
Industrial	7.5 - 8.5	-
R&D	7.0 - 8.0	-150 to -275

Top 10 2005 Office Sales

Building	Square Feet	Est. Price	Price/SF
University Plaza	451,000	\$290,000,000	\$643
Fireman's Fund Headquarters	700,000	\$283,500,000	\$405
Basin Street North Bay Portfolio	1,382,000	\$275,000,000	\$199
303 Second St	700,945	\$237,500,000	\$339
Westport Office Park	967,680	\$235,000,000	\$243
Citicorp Center	550,100	\$217,000,000	\$394
China Basin Landing	731,500	\$210,000,000	\$287
Embarcadero Center West	475,000	\$205,800,000	\$433
Kaiser Center	859,000	\$200,000,000	\$233
Shoreline Technology Park	726,500	\$199,500,000	\$275

SUBMARKETS

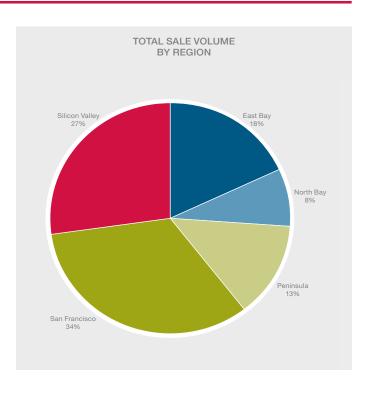
SAN FRANCISCO

Downtown Class A office towers continued to change hands at a feverish pace in 2005. As noted earlier, the BofA building went back out on the market and has been tied up at a price exceeding \$1 billion.

Beacon Capital out of Boston acquired several assets, including Citicorp Center, 100 California, 100 First, and 50 Beale—deals totaling almost \$650 million. American Assets also played a major role, purchasing The Landmark at One Market for \$190 million and 160 King Street for \$69 million. Notable sellers in 2005 included EOP, Ellis Partners, Pacific Coast Capital Partners, and TMG. Expect to see this market slow down in 2006, as owners will simply run out of new buildings to sell.

THE PENINSULA

The Peninsula tallied some impressive numbers in 2005 and claimed three of the top 10 slots this year—including the number one spot. The sale of University Plaza in Palo Alto at well over \$600 per square foot bears testament to investor confidence in the Peninsula's submarkets. This transaction also displays the premium that TIC groups are willing to pay for quality, stabilized assets. Oddly, this did not represent the high mark on a



SUBMARKETS

per-square-foot basis. That honor went to Concar 1 and 2 in San Mateo. ING Clarion represented CalSTRS in its \$717 per square foot purchase of this facility, which was 100% leased to Siebel Systems.

The Peninsula also saw several major parks trade. Slough Estates picked up the 623,000 square foot Seaport Center for \$106 million (\$170 per square foot), and Prudential partnered with Harvest Properties in the acquisition of the 967,000 square foot Westport Office Park for \$235 million (\$243 per square foot). And Hitachi Plaza in Brisbane managed to trade twice in 2005: Divco West picked it up in April for \$29.25 million and then flipped it to local investor Diamond Properties just four months later—for a rumored \$38.7 million.

SILICON VALLEY

Several major R&D portfolios went to market in 2005. Potential buyers greeted these offerings with less enthusiasm than expected. At year-end, none of the big three portfolios—Peery-Arrillaga, Divco, and Sobrato—had closed, and at least two were being pulled from the market. Still, the Silicon Valley market recorded a solid year and accounted for more than 25% of the Bay Area sale volume.

Slough Estates led the charge, snatching up the 725,000 square foot Shoreline Technology Park in Mountain View for just shy of \$200 million (\$275 per square foot). Slough is betting big on biotech in the Bay Area. Westcore Properties out of San Diego, having picked up several major holdings in 2004, continued this trend in 2005 by adding two Bay Area portfolios totaling \$185 million, each with significant Silicon Valley components.

However, single-tenant assets carried the day... and the highest price tags. Tishman picked up the Juniper Networks buildings at the Mathilda Research Center in Sunnyvale for \$174 million (\$409 per square foot); RREEF acquired the Philips Crossroads Center (Philips Electronics), also in Sunnyvale, for \$115 million (\$399 per square foot); the Lincoln Technology Center in San Jose, with Sun Microsystems as its lone tenant, sold for \$95 million (\$380 per square foot). And lastly, Brocade Communications bought out its own facility in a cost-consolidation move, paying \$551 per square foot for its headquarters at Skyport Plaza in San Jose.

Silicon Valley Single Tenant Sales

Building		Price PSF
Sprint Data Center	Sprint Communications	\$516
Mathilda Research Center	Juniper Networks	\$409
Fairchild Research Center	Nokia	\$407
2525 North First St	Sun Microsystems	\$405
Philips Crossroads Center	Philips Electronics	\$399
Bayshore Data Center	Saavis Communications	\$397
Lincoln Technology Center	Sun Microsystems	\$380
2475 Hanover St	Pillsbury Winthrop	\$369

THE EAST BAY

The East Bay, even with healthier market fundamentals, still traded at a discount in 2005. The region's top-tier office buildings sold in the range of \$230 per square foot, compared to the \$300 per square foot-plus range seen in neighboring markets. Still, sales volume doubled, and the market made up almost 20% of the total Bay Area sale volume. In downtown Oakland, the landmark Kaiser Center sold for \$200 million, and some smaller Class A offices sold to Prudential as part of the Brandywine acquisition of Prentiss Properties. Prentiss had also purchased 1333 Broadway in Oakland's City Center earlier in the year, paying just under \$150 per square foot for the Class A office. Lastly, Beacon Capital had tied up Lake Merritt Plaza, one of Oakland's premier office buildings, for \$160 million (\$311 per square foot) at year-end.

The real action, however, took place in the Tri-Valley. RREEF acquired a majority interest in the 1 million square foot CarrAmerica Corporate Center for \$197 million (\$189 per square foot). Triple Net Properties picked up Pleasanton's 10-building Britannia Business Center in two phases for a total price of nearly \$190 million (around \$250 per square foot). ING Clarion purchased Dublin Corporate Center on behalf of the AFL-CIO for \$105 million (\$254 per square foot). And Kaiser came in and grabbed a 370,000 square foot chunk of the former PeopleSoft campus for a rumored \$76 million (\$205 per square foot). Elsewhere in the East Bay, Prentiss Properties bought the Concord Airport Plaza from Reynolds & Brown for an estimated \$69.5 million (UPREIT transaction), and RREEF acquired Mt. Diablo Plaza in Walnut Creek from KBS for \$91.5 million.

In other property types, Macquarie and Regency partnered in picking up the CalPERS retail portfolio, which included Ygnacio Plaza in Walnut Creek and Pleasant Hill Shopping Center. Madison Marquette sold a portion of Emeryville's Bay Street to BlackRock for \$185 million (\$463 per square foot), and Kimco Realty took on Fremont Hub from Apollo for \$123 million (\$256 per square foot). On the industrial end, Kaiser purchased the former Albertsons Distribution Center in San Leandro, paying \$94 million for the 780,000 square foot facility; and TMG Partners acquired the 622,000 square foot Bayside Technology Park in Fremont for \$77.8 million (\$125 per square foot).

THE NORTH BAY

The North Bay experienced an unusual flurry of activity in 2005, securing the number two and three slots in this year's top 10 list. While the sale of the Fireman's Fund headquarters in Novato for \$283.5 million (\$405 per square foot) snagged the second spot, the more significant deal was EOP's acquisition of the approximately \$275 million Basin Street North Bay portfolio. The transaction occurred in multiple phases, with prices varying by asset between \$150 and \$270 per square foot, and signaled EOP's tremendous confidence in the growth potential of this often-overlooked market.

PROPERTY TYPES

OFFICE

Office sales continued to dominate in 2005, making up almost two-thirds of the overall Bay Area activity. Total sales volume increased by 86%, and all of the top 10 deals for 2005 were office transactions. In 2004, office held only five of the top 10 spots. Institutional and foreign investors accounted for more than half of the office activity but yielded some ground to private capital buyers, who made up 30% of this year's office volume, up sharply from last year's meager showing.

RETAIL

Relative to the other property segments, you would think retail activity was slumping. However, overall volume actually increased by 20% over the previous year, and the sector still saw a few \$100 million deals. These included Bay Street in Emeryville, Bridgepointe Center in San Mateo, and Fremont Hub. Foreign investors made a strong move into the Bay Area retail market, particularly Australians. Macquarie's acquisition of the CalPERS retail portfolio accounted for the bulk of this activity. In retrospect, the retail market definitely peaked earlier than others. As a result, it has also stabilized sooner. But, at almost \$1.5 billion in overall activity, this property segment is still undeniably healthy in the view of investors.

OFFICE SALES BY BUYER CLASS Private Capital Private Cap

INDUSTRIAL

It's all about R&D in 2005. This portion of the larger industrial group saw volume triple from the doldrums of 2004. Opportunistic buyers streamed into the one property segment that still seemed to offer significant returns—or at least used to. Cap rates tumbled from 10% to as low as 7% in some markets. Sellers marketed major portfolios, but most of these never closed in 2005. In fact, no single deal even broke the \$100 million mark. The wealth was distributed more evenly, with 10 transactions between \$50 and \$100 million, including large deals in Silicon Valley, on the Peninsula, and in the East Bay.

Major 2005 R&D Portfolio Offerings

Building	Туре	Square Feet
Peery-Arrillaga Portfolio	R&D	5,300,000
Divco West Portfolio	Office / R&D	4,000,000
Sobrato Portfolio	R&D	1,340,000

LOOKING FORWARD

Last year, we predicted an uptick in offerings and sale activity—and we were right. This year, however, we expect to see the flow of new offerings slowly ebb, with a consequent decline in sale volume—and we hope we will be wrong. However, it seems inconceivable to imagine the market maintaining this maddening transactional pace, and the closing months of 2005 were already witnessing the beginning of the end. Jane, it would appear, has hit the off switch. Let's just hope that we can manage the slowdown with a little more grace than George Jetson.

In 2006, look for more activity in the outlying suburban markets and within the lower-tier A-minus and Class B buildings. Also, buyers still appear to be betting heavily on an R&D resurgence, especially with an eye to the Bay Area's rapidly growing biotech sector. Lastly, creative redevelopment strategies remain an excellent path to higher returns. And they do so while avoiding the feeding frenzy that accompanies all of the more obvious institutional class assets.

San Francisco County

2004 POPULATION	782,495
DAYTIME POPULATION	819,490
2004 MEDIAN HH INCOME	\$67,051
TOTAL BUSINESSES	56,145
2005 UNEMPLOYMENT RATE	4.1%



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Address	Size (SF)	Туре	Price
The Villas Parkmerced	3,221 Units	Apartment	\$698,250,000
185 Berry St China Basin Landing	729,047	Office	\$257,000,000
303 2nd St.	700,890	Office	\$237,500,000
1 Sansome St Citicorp Center	550,000	Office	\$216,700,000
275 Battery St Embarcadero Center West	465,360	Office	\$205,760,000
1 Market St The Landmark	400,000	Office	\$190,000,000
225 Bush St.	570,000	Office	\$178,500,000
100 1st St. – 100 First Plaza	464,797	Office	\$174,589,420
Mission Bay Block 28/550 Terry A. Francois Blvd.	283,000	Office	\$171,400,000
201 Mission St./580 California St.	796,301	Office	\$163,000,000
50 Beale St Bechtel Building	641,328	Office	\$160,000,000
333 Market St.	596,000	Office	\$155,000,000
100 Pine St.	402,535	Office	\$149,000,000
1390 Market St. – Fox Plaza	250,207	Office	\$147,500,000
405 Howard St Foundry Square II	482,900	Office	\$133,000,000

SAN FRANCISCO COUNTY OVERVIEW

SAN FRANCISCO COUNTY OVERVIEW **OFFICE** 82,321,824 8,536,185 1,835,569 10,371,754 12.6% 16.3% \$0.75-\$5.83 \$30.19 R&D MFG WHSF 19,377,004 480 226 106 300 586 526 3.0% 5.0% \$0.40-\$1.36 \$0.79 TOTALS 101,698,828 9,016,411 1,941,869 10,958,280 10.8% 14 1%

an Francisco County is the Bay Area's largest office market, with 82 million square feet of building base, or 39% of the entire office product. The Financial Districts (North and South) combine for 49.5 million square feet, and the Non-Financial Districts (divided into four submarkets) make up the rest with 32.9 million square feet. This market posted surprisingly good statistics across the board in 2005.

In 2005, the speed of recovery increased remarkably. Rent spikes, steadily declining vacancies, and robust investment sales were the main headlines for the year. The overall vacancy in 2005 ended at 12.6%, a remarkable occupancy gain from 20.2% in 2002. A big jump in the overall average asking rate to \$30.19 per square foot full service per year at the end of 4th quarter 2005, compared to \$25.03 per square foot full service in 2003, indicates that rents have escalated significantly. Sublease space has shed approximately 3.6 million square feet since 2002.

In 2005, there were four leases signed over 100,000 square feet. The investment environment continued to surge as well, with 10 major assets of 400,000 square feet or more trading hands. The total value of these deals exceeded \$1.7 billion, a new high-water mark for San Francisco. Net absorption of office space in San Francisco finished the year at over 2.3 million square feet, the second-strongest recording of net absorption in the past 10 years. The only year of greater net absorption was 1999. Gross absorption, the measure of overall leasing activity (irrespective of whether it represents a net increase or decrease in demand), was also strong at just under 11 million square feet. New construction was limited to about 440,000 square feet, and those projects coming to market, such as Equity Office Properties' Foundry Square I at 400 Howard Street (office tenant: Barclays Global Investors, 335,000 square feet) and Westfield San Francisco Centre at 835 Market Street (office tenant: San Francisco State University, 107,125 square feet), were substantially pre-leased.

The graph of vacancy and corresponding rental rates over the past 30 years for San Francisco looks a lot like a roller coaster. As we close out 2005, there is no question that everyone involved in this market, landlord and tenant alike, is in for a continued ascent throughout 2006. The real question is one of pace. How fast will it go up? We know that premium Class A view space has already begun to spike. We know, too, that large blocks of space are limited. What remains to be seen is how much restraint today's new, higher-price owners will show in holding up that higher rental-rate floor on commodity-type space. Hold on tight—2006 promises to be an exciting ride!

The industrial market is comprised of three submarkets, and its total building inventory is approximately 19.3 million square feet. The San Francisco industrial/warehouse market is one of mature product and is utilized primarily by traditional users in the service industry that need to be in San Francisco. This includes

both distribution and manufacturing. These employment sectors serve an important function in the economy of San Francisco.

The San Francisco industrial market ended 2005 with a strong performance, as vacancy declined to just 3.0% by year's end. This was this market's lowest vacancy since 2001. The average asking rate for industrial/warehouse product in San Francisco remained steady, closing the year at \$0.79 per square foot industrial gross. With consistent demand and diminishing availabilities, the average asking rent was able to climb back up to nearly the same level as in 2001 (\$0.80). The Mission/SOMA submarket remained the most expensive space in San Francisco, with an average asking rate of \$0.91 per square foot industrial gross and an extremely low vacancy of 0.6%.

The overall leasing activity topped out at 850,442 square feet in 2005, the highest level of activity since 2001. In 2005, all quarters produced approximately 200,000 square feet of gross absorption or greater. The most leasing activity occurred in the Third Street Corridor/Potrero Hill area, as approximately 113,700 square feet was absorbed, or 52% of the county's total gross absorption. More significantly, the net absorption in 2005 surged to 170,073 square feet, a number not achieved since 2000.

The progress of the renovation of contaminated Hunters Point Naval Shipyard will remain to be seen. Lennar Corporation, a new developer, has acquired 93 acres of the 500-plus-acre site from the City of San Francisco to build homes, retail, and commercial spaces. In fact, the industrial portion is not being considered for active development in the near future. Currently, Lennar has finished the demolition and deconstruction of old structures at the former navy shipyard and is starting the second phase of site grading and development. This first section, 66acre Parcel A, is scheduled for completion by October 2007. It will eventually include 1,200 homes, a 20,000 square foot neighborhood retail center, 25 acres of parks, open space, and an African International Marketplace. The total redevelopment project—one of the state's largest and most complex—is divided into several pieces totaling 500 acres. It is still uncertain what will be built on the remaining 434 acres. Campaigns identify 400 more homes and 280,000 square feet of more commercial space, the outline of which is still being assessed.

Mixed-use residential conversions of hotels or office buildings are hot in San Francisco, thus increasing retail opportunity in the City. Union Square retail vacancy, less the Bloomingdale's project, dropped to 7.0% in 2005, down significantly from highs in the high-teen range of 2002. Several Union Square buildings changed hands in 2005. Neighborhood retail corridors such as Union Street, Chestnut Street, Fillmore Street, Hayes Valley, the Castro, and Laurel Heights attracted many new concepts and innovative boutiques.

Marin County

2004 POPULATION	250,816
DAYTIME POPULATION	243,381
2004 MEDIAN HH INCOME	\$85,707
TOTAL BUSINESSES	20,562
2005 UNEMPLOYMENT RATE	3.3%



			LES

Address	Size (SF)	Туре	Price
775-779 San Marin Dr., Novato	710,330	Office	\$283,500,000
Marin Technology Center, San Rafael	455,000	Office	\$75,500,000
Basin Street Portfolio, Novato	203,634	Office	\$48,000,000
San Rafael Corporate Center, San Rafael	155,318	Office	\$37,000,000
The Marketplace, Corte Madera	51,477	Retail	\$19,700,000
Nave Drive @ Hwy 101, Novato	385,547	Land	\$17,500,000
San Pablo Apartments, San Rafael	96 Units	Apartment	\$10,789,500
1 Digital Dr., Novato	52,000	Industrial	\$8,550,000
330 Bellam Blvd., San Rafael	36,009	Retail	\$8,033,000
Ignacio Pines, Novato	39 Units	Apartment	\$6,825,000
1145 Elm Dr., Novato	40 Units	Apartment	\$6,450,000
599 Sir Francis Drake Blvd., Greenbrae	25,000	Office	\$6,300,000
3095 Kerner Blvd., San Rafael	35,580	Office	\$6,200,000
3301 Kerner, San Rafael	22,179	Office	\$5,500,000
481 Via Hidalgo, Greenbrae	15,000	Office	\$4,500,000

MARIN COUNTY OVERVIEW

MARIN COUNTY OVERVIEW 2004 Direct Sublease Total 2005 Sausalito/Tiburon 657,306 48.755 48.755 12.9% \$3.04 7.4% 417,854 17,725 1,029 18,754 8.3% \$3.00 Mill Valley 4.5% SOUTHERN MARIN TOTALS 1,075,160 66,480 1,029 67,509 11.1% 6.3% \$3.03 14,007 \$2.71 Corte Madera 456.191 14,007 0 5.3% 3.1% 52 245 10.0% \$2.80 Greenbrae/Larkspur 835 648 46 952 5 293 6.3% CENTRAL MARIN TOTALS 1,291,839 60,959 5.293 66.252 8.3% 5.1% \$2.78 3.474.079 423.098 48.296 471.394 13.4% 13.6% \$2.44 276,016 Novato 2.954.731 270.619 546.635 17.5% 18.5% \$2.09 NORTHERN MARIN TOTALS 6,428,810 693,717 324,312 1,018,029 15.3% 15.8% \$2.25 MARIN TOTALS: 8.795.809 821.156 330.634 1.151.790 13.8% 13.1% \$2.33 ALL RATES FULL SERVICE PER MONTH

arin County, bordered by the San Francisco Bay, the Pacific Ocean, and the vineyards of Sonoma and Napa valleys, is considered one of the most affluent counties in the nation. Located just north of San Francisco's Golden Gate Bridge, Marin, home to Mount Tamalpais, is blessed with an excellent climate, lavish open space, and spectacular views.

As of 2005, Marin County was home to nearly 252,000 residents, with 128,700 people employed throughout the area. Marin County is predominantly home to many smaller service-oriented companies. Some of the largest private-sector employers within the county include Fireman's Fund Insurance Company, Autodesk, Fair Isaac, and Green Point Mortgage Company. Marin County had an impressive 3.3% unemployment rate in December 2005.

For Marin County, 2005 was a positive year for landlords. Average asking rates increased for the second consecutive year. Overall, the average asking rate increased \$0.02 to \$2.33 per square foot full service. In addition, vacancy for the county dropped 70 basis points from 2004, to close 2005 with a vacancy rate of 13.1%. Available space in Marin decreased only slightly in 2005, which can be attributed to the relocation of Lucasfilm from 180,000 square feet at 1600 Los Gamos in San Rafael to San Francisco.

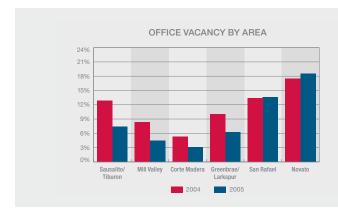
While activity is stronger for most landlords, the majority of vacancy within the county is located in product that is large and not well suited for the average-size Marin tenant. If we remove the three largest blocks (Marin Technology Center, Pell Plaza, and Fireman's Fund), Marin achieves a much healthier vacancy rate below 10%. High operating and housing costs within the county will continue to make it difficult for larger businesses to reside and grow in Marin.

The retail market was extremely healthy in 2005. With the limited number of existing shopping centers and scarcity of developable properties in Marin County, average asking rates for retail space averaged \$2.75 to \$4.00 per square foot NNN. As in previous years, the county produced one of the highest median household income numbers in California. The high income and education levels have brought new tenants to the market, including Best Buy, Sur La Table, Trader Joe's, Jos. A. Bank, and Lucy.

Marin County property values continue to enjoy high valuations due to low interest rates and low market cap rates. Limited supply of available inventory, lack of new development opportunities, and strong demand from private capital continues to drive the investment market.

Investment activity in 2005 surpassed a strong transaction year in 2004. Among the most notable sale transactions in 2005 were the 710,000 square foot Fireman's Fund Campus (\$283.5 million – Novato); the 155,000 square foot San Rafael Corporate Center (\$53 million – downtown San Rafael); the 114,600 square foot Golden Gate Plaza (\$24.5 million – Novato); and the 89,000 square foot Woodside Office Center (\$23.95 million – Novato).

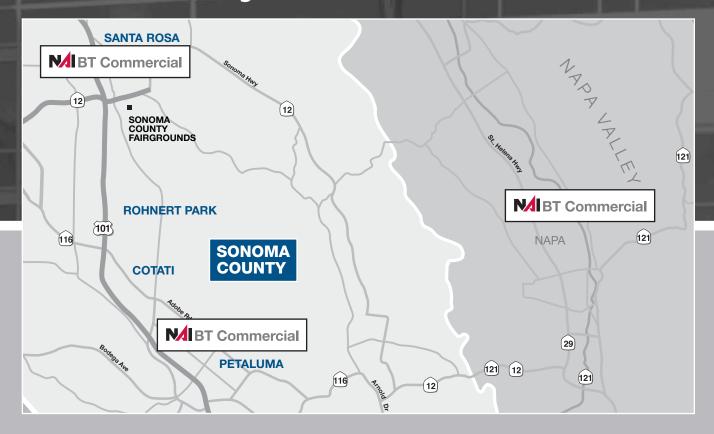
As we enter 2006, we anticipate that continued market demand for smaller office space and decreasing vacancy in southern submarkets will push tenants north. Landlords with small spaces will continue to gain strength while those with large office space will remain neutral. Retail and investment demand should remain constant.





Sonoma County

2004 POPULATION	481,846
DAYTIME POPULATION	408,544
2004 MEDIAN HH INCOME	\$59,990
TOTAL BUSINESSES	25,334
2005 UNEMPLOYMENT RATE	3.8%



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Address	Size (SF)	Туре	Price
Basin Street Portfolio Sale, Santa Rosa and Petaluma	900,179	Office/Industrial	\$213,000,000
1212 Valley House Dr., Rohnert Park	713,000	Office/Industrial	\$38,500,000
Coddingtown Mall, Santa Rosa	827,000	Retail	\$37,000,000
Maribelle Apartments, Santa Rosa	287 Units	Apartment	\$36,000,000
2789 Giffen Ave., Santa Rosa	166,900	Industrial	\$30,000,000
Mendocino Marketplace, Santa Rosa	66,530	Retail	\$20,000,000
600 Santa Rosa Plz., Santa Rosa	90,348	Retail	\$19,436,000
2084 Lakeville Hwy., Petaluma	71,000	Office	\$12,750,000
3033 Cleveland Ave., Santa Rosa	105,118	Office	\$12,500,000
1652 Yardley St., Santa Rosa	58 Units	Apartment	\$11,350,000
The Meadows, Santa Rosa	100 Units	Apartment	\$11,000,000
Sonoma State Hwy & Madrone Rd., Sonoma	6,584,094	Land	\$8,375,000
North Bay Commercial Center, Rohnert Park	91,911	Retail	\$8,300,000
Shurgard Storage Center Rohnert Park	69,532	Industrial	\$7,760,000
90 E St., Santa Rosa	33,000	Office	\$6,620,000

SONOMA COUNTY OVERVIEW

SONOMA COUNTY OVERVIEW 2004 Direct Sublease Total 2005 3,053,553 456,088 651,299 \$1.83 Petaluma 195,211 14.2% 21.3% Rohnert Park/Cotati 1.463.610 595.511 0 595.511 2.3% 40.7% \$1.74 Santa Rosa 4,120,495 \$1.90 419,558 111,672 531,230 12.9% 12.9% Santa Rosa Airport 1,355,476 357,674 33,958 391,632 19.2% 28.9% \$1.66 DOES NOT INCLUDE HEALDSBURG OR WINDSOF SONOMA TOTALS: 9,993,134 21.7% \$1.79 1.828.831 340.841 2.169.672 12.1%

onoma County, "the gateway to the wine country," is bordered on the south by Marin County, on the east by Napa County, on the north by Mendocino County, and on the west by the Pacific Ocean. Sonoma is a highly regarded tourist destination. With much of the business and real estate development occurring along Hwy 101, main arteries connect Napa, Sonoma, and Sacramento by way of Highways 12, 37, and 116. In addition to the award-winning wines and wineries for which the county is best known, its technology sector, high quality of life, and proximity to San Francisco have fostered entrepreneurship and business development.

As of 2005, Sonoma County was home to 478,400 people, 176,947 households, and 114,219 families. Over the past five years, the population has increased by 13,800 residents, or 3%. Average household income has also increased to \$72,036 and is projected to reach \$80,000 in 2008. As costs of living and conducting business in Marin County become greater, look for a larger number of businesses and individuals to migrate north to Sonoma County.

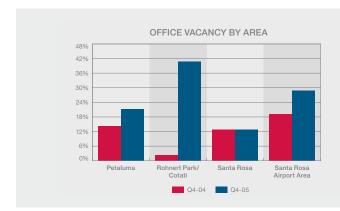
In recent years, Sonoma County has vastly expanded into a technology and telecommunications hot spot. High quality of life and a variety of job opportunities have attracted recent graduates to this county. Sonoma State University continues to expand and receive funding for facilities, and it supplies a steady labor force to the region. Sonoma County has weathered the telecom bust much better than other Bay Area counties. Currently, the 4.2% unemployment rate in Sonoma County is well below the U.S. and California averages of 4.9% and 5.2%, respectively. Leading industries in Sonoma include trades, government, education and health services, tourism, and hospitality. In addition, with an emerging technology sector and development sites, Sonoma County will provide opportunities for innovation and expansion.

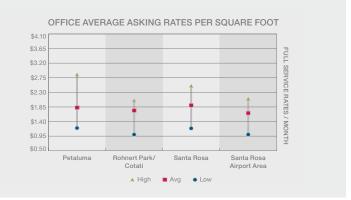
Sonoma County experienced strong market activity in 2005. Vacancy rates finished the year at 21.7% in the office sector

and 12.9% in the industrial sector. Although vacancy increased in both sectors, if we exclude the 700,000 square foot Agilent Campus in Rohnert Park as well as 310,000 square feet of new construction that came online, vacancy would have remained relatively flat. Rates remained stable throughout the year, but look for landlords with smaller suites to have increased pricing pressure in the coming year. Office average asking rents jumped \$0.02 to \$1.79 per square foot full service, while industrial asking rents jumped \$0.03 to \$0.72 per square foot NNN.

Investment activity excelled throughout 2005, with large office properties paving the way. Equity Office Properties Trust, the largest real estate investment trust in America, purchased Basin Street Properties' entire Marin portfolio and a portion of its Sonoma portfolio for an estimated \$275 million. This transaction spanned the 2nd and 3rd quarters of 2005, in which 1,184,000 square feet of Sonoma office and R&D/flex space was exchanged. Properties purchased in the Sonoma County portion of the transaction included Redwood Business Park, 539,621 square feet (Petaluma); Oak Valley Business Park, 131,678 square feet (the airport—north Santa Rosa); The Lakes, 135,179 square feet (Santa Rosa); 3850 & 3880 Brickway Boulevard, 126,585 square feet (the airport—north Santa Rosa); Water Towers, 90,627 square feet (Santa Rosa); Parkpoint Business Center, 67,869 square feet (Santa Rosa); McDowell Corporate Campus, 53,846 square feet (Petaluma); and the Fountaingrove Executive Center, 37,428 square feet (Santa Rosa). One more mentionable sale took place at 1212 Valley House Drive in Rohnert Park, in which Codding Enterprises purchased 700,000 square feet from Agilent Technologies for \$38.5 million.

In 2006, we anticipate Sonoma County to benefit from a tightening Marin County leasing market, driving tenants north and increasing overall demand and absorption. Landlords will continue to gain negotiating strength while tenants adjust to limited alternatives. Retail and investment activity will remain strong.





Napa/Solano County

2004 POPULATION	784,196
DAYTIME POPULATION	641,719
2004 MEDIAN HH INCOME	\$63,355
TOTAL BUSINESSES	57,932
2005 UNEMPLOYMENT RATE	4.5%



2005 MAJOR SALES: NAPA COUNTY			
Address	Size (SF)	Туре	Price
Montrachet Apartments, Napa	200 Units	Apartment	\$45,000,000
1025 Kaiser Rd., Napa	6,621,120	Land	\$40,000,000
1319 Duhig Rd., Napa	19,077,102	Commercial Land	\$30,000,000
Parkway Plaza, Napa	14,464,098	Commercial Land	\$23,500,000
1011-1125 1st St., Napa	77,483	Retail	\$19,000,000

2005 MAJOR SALES: SOLANO COUNTY			
Address	Size (SF)	Туре	Price
Green Valley Tech Plaza, Fairfield	103,128	Industrial	\$25,746,000
908-976 Admiral Callaghan Ln., Vallejo	90,250	Retail	\$24,400,000
Spring Glen Apartments, Vacaville	176 Units	Apartment	\$21,000,000
1547 Gateway Blvd., Fairfield	40,000	Retail	\$16,000,000
941-1045 Alamo Dr., Vacaville	115,216	Retail	\$16,000,000

NAPA/SOLANO COUNTY OVERVIEW

NAPA COUNTY 131,279 2004 POPULATION DAYTIME POPULATION 128,956 2004 MEDIAN HH INCOME \$60,689 TOTAL BUSINESSES 7.215 2005 UNEMPLOYMENT RATE 4 0%

apa County is located 40 miles north of San Francisco and is home to some of the world's best wineries. The region's natural beauty, hundreds of wineries, and active community have made Napa County a desirable place to live, work, and vacation. The region boasts a quality of life that people are willing to pay a premium to enjoy.

The wine the industry is beginning to rebound after several years of seeing an increase in production and a decrease in overall price of wine. The new law authorizing direct sale and shipping of wine over the Internet to out-of-state customers has given the boost that the industry needed. A diversified local economy has diluted some of the economic impact caused by the struggling wine industry. The tourism, hospitality, and telecommunication industries provide the county with a steady mix of quality jobs and lucrative businesses.

In an effort to boost business in downtown Napa, property owners voted to assess themselves in order to launch aggressive advertising and environmental enhancement campaigns. The vote formed a Property and Business Improvement District (PBID) that will raise an estimated \$400,000 a year for five years. In addition to recent investment in the local infrastructure, the campaign hopes to bring more tourists to the reenergized downtown.

The 152-acre former Napa Pipe property sold just before the close of 2005. Plans have not been disclosed for the site, but the lack of affordable housing within the county could influence the final decision. Montrachet, a 200-unit luxury apartment community in Napa, also sold in the 4th guarter for an estimated \$45 million. With rising interest rates and a shortage of affordable homes, renting has become a more attractive option.

"Napa-The wine the industry is beginning to rebound after several years of seeing an increase in production and a decrease in overall price of wine. The new law authorizing direct sale and shipping of wine over the Internet to out-of-state customers has given the boost that the industry needed."

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LAR	GEOI		PLU	IENO

Queen of the Valley Hospital Cultured Stone St. Helena Hospital Foster's Wine Estates Americas Silverado Resort Trinchero Family Estates Diageo Chateau & Estates Wines

Icon Estates Pacific Union College Meadowood Napa Valley Vintage Inn & Spa Marinco Allied Domeca Nova Group

SOLANO COUNTY

2004 POPULATION	419,978
DAYTIME POPULATION	330,439
2004 MEDIAN HH INCOME	\$62,958
TOTAL BUSINESSES	14,980
2005 UNEMPLOYMENT RATE	4.6%



ocated midway between San Francisco and Sacramento, Solano County combines a mix of rural and suburban lifestyles with easy access to urban amenities. The county incorporates seven cities: Fairfield, Benicia, Dixon, Suisun, Rio Vista, Vacaville, and Vallejo. In 2004, Solano County crop production topped more than \$205 million, down about \$9 million from 2003 but still its second-highest total in seven years. The county's largest employers include Travis Air Force Base, Genentech, Kaiser Permanente, ALZA Corporation, Anheuser-Busch Inc., and Valero Refining Corporation. Approximately \$55 million, or 15%, of the county's tax dollars are designated for its redevelopment agencies.

According to the Economic Development Department of California, at the close of 2005, Solano County had a labor force of 214,900 workers and an unemployment rate of 4.6%. In comparison, at year-end 2004, unemployment in Solano County was 5.3%, or 11,100 unemployed persons.

In 2005, construction commenced on a new three-story, 48,000 square foot Class A office building located at 5030 Business Center Drive in Fairfield, at the intersection of Interstates 680 and 80. A restaurant will be located on the ground floor as well. The final touches are currently being added.

The newly constructed Solano County Government Center now enables 16 county departments to easily coexist in downtown Fairfield. The new campus features a six-story County Administration Center totaling 300,000 square feet, along with a five-level parking garage, a public plaza, and a courtyard. A new 42,500 square foot probation building was also built. This project was the largest capital improvement project in Solano County's history. The Design Building Institute of America gave the center its national Merit Award for Public Sector Building over \$15 million.

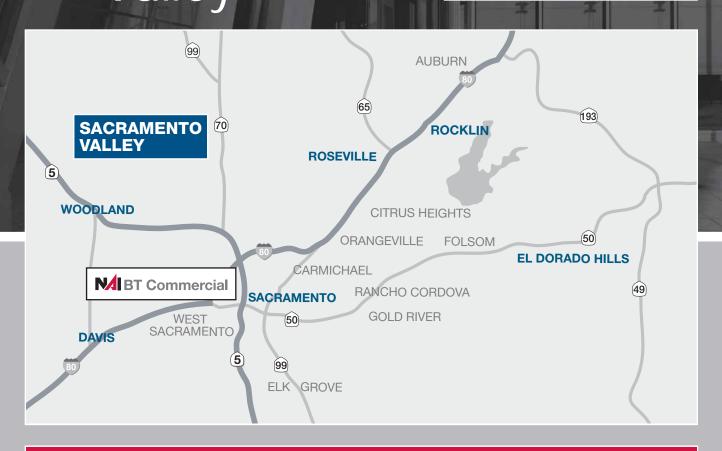
In an effort to produce a new regional park, Solano County's Tri-Valley County Cooperative Planning Group (a joint-powers authority group that includes the county and the cities of Fairfield, Benicia, and Vallejo) acquired 2,313 acres of land from PG&E. The county also recently acquired a building at 420 Admiral Callaghan Lane as a replacement Veterans Hall in Vallejo. The former building at 444 Alabama Street was put into service in 1929 and was near complete deterioration. Rather than restore or renovate, the county purchased an entirely new location.

Alza Corp Kaiser Foundation Hospital Northbay Medical Center Six Flags Marine World Genentech, Inc.

FCI Construction Guittard Chocolate Co. Anheuser-Busch, Inc Valero Refining Co

Sacramento Valley

2004 POPULATION	1,217,299
DAYTIME POPULATION	1,118,183
2004 MEDIAN HH INCOME	\$58,535
TOTAL BUSINESSES	61,987
2005 UNEMPLOYMENT RATE	4.0%



2005 MAJOR SALES			
Address	Size (SF)	Туре	Price
980 9th St US Bank Plaza, Sacramento	453,901	Office	\$159,000,000
10850 Gold Center Dr., Rancho Cordova	647,474	Office	\$103,000,000
801 K St Renaissance Tower, Sacramento	301,000	Office	\$79,350,000
4726 Natomas Blvd Park Plaza, Sacramento	362,918	Retail	\$71,500,000
1515 S St., Sacramento	350,000	Office	\$69,000,000
1325 J St., Sacramento	326,306	Office	\$66,000,000
Natomas Corporate Center, Sacramento	297,633	Office	\$61,800,000
The Falls at Willow Creek, Folsom	426 Units	Apartment	\$59,000,000
2349-2399 Gateway Oaks Dr., Sacramento	242,800	Office	\$52,800,000
Jefferson Commons, Sacramento	288 Units	Apartment	\$51,500,000
1680 Tide Ct Bldg A, Woodland	1,229,737	Industrial	\$51,000,000
400-500 R St., Sacramento	215,000	Office	\$44,000,000
Oak Brook Apartments, Rancho Cordova	304 Units	Apartment	\$41,787,000
Highland Crossing Shopping Center, Roseville	126,872	Retail	\$41,500,000
Tanglewood Apartments, Davis	216 Units	Apartment	\$40,000,000

SACRAMENTO VALLEY OVERVIEW

SACRAMENTO VALLEY OVERVIEW an an **OFFICE** 59,144,649 6,958,349 829,456 7,787,805 13.2% \$0.84-\$4.00 \$1.87 1631630 IND 124,277,065 13,593,169 373,050 13,966,219 11.2% \$0.12-\$2.00 \$.042 TOTALS 183,421,714 20,551,518 1,202,506 21,754,024 11.9%

he Sacramento Valley lies halfway between San Francisco and Lake Tahoe. There is an extensive transportation network, including I-5, I-80, US-50, and Hwy 99. The Sacramento River and American River are great water sources for agricultural, industrial, residential, and recreation uses and, with the Port of Sacramento, provide access to the Pacific Ocean. The region is home to two major educational institutions: UC Davis, which has an enrollment of over 30,000 students and is one of the nation's top public research universities; and California State University Sacramento, which is located in the city of Sacramento and enrolls approximately 28,000 students. The Sacramento Valley is considered by many to be an ideal location, with a wealth of local businesses and easy accessibility to the Bay Area. In addition, due to its proximity to major lakes, rivers, and mountain ranges, the Valley also provides numerous recreational options.

The office market in the Sacramento Valley totals more than 59 million square feet. In 2005, the largest segment of the market consisted of Class B offices, with 37% of the Valley's building base. Overall vacancy came in at 13.2% for the 4th quarter 2005, with five out of nine submarkets showing a vacancy below 10%. Class C office space produced the lowest rate of any of the three class categories, with a vacancy of 10.5%. Class A and B space came in at 15.5% and 13.7%, respectively. Average asking rates for the Sacramento Valley registered at \$1.85 per square foot full service. Subleases made up 12% of the total availability in 4th quarter 2005, with 829,456 square feet.

The largest lease transaction signed in 2005 was the Department of Consumer Affairs' 200,310 square foot deal in Natomas. Other notable leases during the year included FDI Collateral Management (88,734 square feet); Downey Brand Seymour & Rohwer (63,500 square feet); and First Data (43,200 square feet). The largest sale of the year in the Sacramento Valley was from PGOCC, LLC, which purchased the Prospect Green and One Capital Center office parks in Rancho Cordova for a total of 647,474 square feet. There were a number of other major sale transactions signed in 2005, namely Teachers Insurance & Annuity Association (453,901 square feet); Hines REIT (350,000 square feet); and Rubicon-NGP (326,306 square feet). There was 2.5 million square feet under construction in the Sacramento Valley at year-end 2005, mostly comprised of Class A buildings. In 2006, Sacramento Valley office vacancy should stay level and rents should inch up.

The city of Sacramento is the epicenter of the Valley's office market, with 37.3 million square feet of office space. Sacramento's CBD has faced competition from suburban submarkets offering a plethora of new product, but in 2005 there was increased development interest in the central city. Investor confidence in Sacramento's CBD seems to be high, as evidenced by proposed and under-construction speculative offices.

The industrial building base in the Sacramento Valley totaled 124.2 million square feet. Vacancy in the 4th quarter registered a solid 11.2%, with an average asking rate of \$0.42 per square foot NNN. Ten of the Valley's 14 submarkets recorded vacancy rates under 10%. Of the nearly 14 million square feet available, 373,000 square feet, or 3%, consisted of sublease space. The top lease signed in 2005 was R.C. Willey's nearly 500,000 square foot deal in Roseville. Other notable leases included Alameda County Auto Auction (171,000 square feet); Bozankaya, LLC (159,942 square feet); and 24 Hour Recreational Storage (131,625 square feet). The top 2005 industrial sale was a portfolio of three Woodland distribution centers to US Industrial REIT totaling 1.2 million square feet. Other major buyers in 2005 were United National Foods (478,468 square feet); R&G Hayward, LLC (468,854 square feet); and BRB Interests LLC (291,328 square feet).

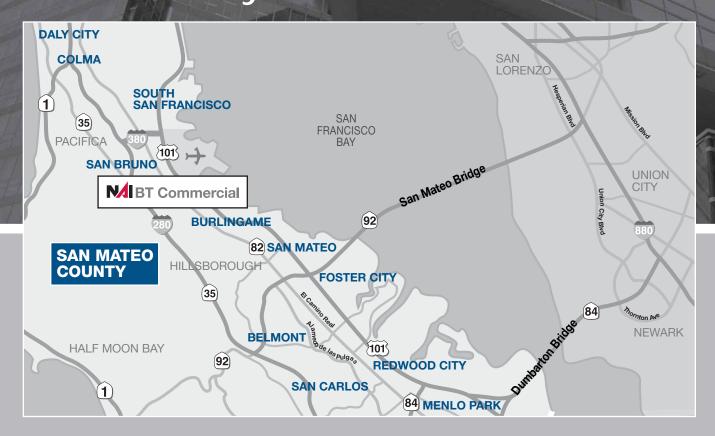
Industrial leasing activity is expected to rise in 2006. With interest rates likely to continue rising, leasing will be a more attractive option for many companies. However, demand by users for the purchase of small industrial buildings will continue to be strong. Construction-related tenants will continue to lease space, but the spaces will likely be smaller, as there is uncertainty about how much the housing market will slow. There was less than 1 million square feet under construction at the close of 2005. Tepid construction activity combined with already-low vacancy rates will push asking rates upward in 2006.

Apartments in the Sacramento Valley region total 72,573 units. The average 2005 asking rent for a two-bedroom, one-bathroom apartment was \$845. Nearly half of the units in the Sacramento Valley are older than 25 years and are Class C apartments. Occupancy in 2005 was at 93%, which was an increase from 92.1% in 2004. Construction of new multifamily properties was down in 2005 to 480 units, from 1,600 units in 2004. Among 2005 sales over \$5 million, the average capitalization rate was 5.9%, with an average price of nearly \$107,000 per unit. Efforts to convert apartments to condominiums are being undertaken and have contributed to stronger sales prices. A number of high-rise condominium projects have been proposed downtown, and several have been approved. Low vacancy combined with less construction will allow landlords to nudge rents up in the coming year.

In early 2006, Sacramento's City Council unanimously endorsed a proposal by D.R. Horton to build high-rise condominiums next to the old PG&E power plant. Some of the profits would be used to help restore the PG&E power plant to an undetermined use. A 265,000-square-foot IKEA store is opening in March 2006 in West Sacramento. NEC Electronics is boosting up its Roseville chip manufacturing operation in 2006, which could add about 100 jobs at the local plant over the next two years.

San Mateo County

2004 POPULATION	718,024
DAYTIME POPULATION	689,323
2004 MEDIAN HH INCOME	\$84,544
TOTAL BUSINESSES	41,060
2005 UNEMPLOYMENT RATE	3.6%



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Address	Size (SF)	Туре	Price
Bayshore Technology Park, Redwood Shores	976,680	Office	\$238,000,000
Mid-Point Technology Park, Redwood City	648,972	Office	"WND"
800/900 Concar Dr., San Mateo	218,985	Office	\$155,500,000
Seaport Centre, Redwood City	630,000	R&D	\$107,100,000
Bridgepointe Shopping Center, San Mateo	265,000	Retail	\$92,000,000
5000 Marina Blvd., Brisbane	161,059	Office	\$78,802,500
Parkside Towers, Foster City	381,050	Office	\$67,445,850
Bayside Towers, Foster City	262,000	Office	\$65,000,000
245 South Spruce Ave., South San Francisco	560,000	Warehouse	\$63,341,250
California Casualty Buildings, San Mateo	250,208	Office	\$59,299,296
Shore Breeze I & II, Redwood Shores	228,275	Office	\$57,068,750
333 Twin Dolphin Dr., Redwood Shores	182,285	Office	\$52,700,000
801 South Gateway Blvd., South San Francisco	136,000	Office	\$50,000,000
Applied Biosystems Campus, Foster City	280,395	Industrial	\$41,778,855
811 Cherry Ave., San Bruno	121,846	Retail	\$33,082,000

SAN MATEO COUNTY OVERVIEW

SAN MATEO COUN	TY OVEI	RVIEW							
	Property Type	Building Base	Direct Availables	Sublease Availables	Total Availables	Vacancy 2005	Vacancy 2004	Rent Range	Avg Rate
	OFFICE	31,273,715	4,584,340	1,289,470	5,873,810	18.8%	24.0%	\$1.00-6.85	\$2.10
	R&D	17,465,578	1,751,897	874,222	2,626,119	15.0%	16.5%	\$0.35-3.85	\$1.54
	MFG	6,631,408	359,772	99,466	459,238	6.9%	9.5%	\$0.40-1.35	\$0.70
H	WHSE	30,657,244	1,525,332	607,454	2,132,786	7.0%	7.1%	\$0.30-1.95	\$0.65
The state of the s	TOTALS	86,027,945	8,221,341	2,870,612	11,091,953	12.9%	15.3%		
						ALL RAT	ES NNN EXCEPT	FOR OFFICE (FULL	SERVICE)

idway between San Francisco and San Jose, you'll find San Mateo County—the Software Valley. San Mateo County stretches from the Pacific Coast to the San Francisco Bay, offering residents, employees, and visitors many benefits, including beautiful natural scenery, Class A office/R&D buildings, an array of retailers, many outdoor activities, and easy accessibility, as the county encompasses Highways 92, 280, and 101. San Mateo County also provides several methods of transportation, including BART, Caltrain, and SamTrans, and it houses the San Francisco International Airport. This region is also home to some of the world's leading technology companies, including Oracle and Siebel Systems.

In 2005, San Mateo County's commercial real estate market continued its path towards recovery as set forth in 2004. Across the board at year-end 2005, vacancy receded from the levels witnessed in the previous year. As such, there was a lot of activity in the market as gross absorption approached levels unseen since the economic boom of 2000. Average asking rates appeared to be stagnant, fluctuating very little throughout the year. With the growth in absorption, it will be only a matter of time before we see these rates move upward.

The San Mateo County office market has grown more than 11.5 million square feet, or 56%, in the last 10 years, ending 2005 with a building base just below 31.3 million square feet. Class A space makes up the bulk of the office base, with nearly 22 million square feet, or 70%. Overall, vacancy in this market closed the year at 18.8%. Class A and Class B vacancy rates were both down more than 360 basis points from 2004, closing at 19.6% and 20.5%, respectively. Notably, overall vacancy in San Mateo County's office market went below the 20% mark for the first time in five years, closing the year at 18.8%. Total availability ended 2005 with 1.8 million square feet less than what was surveyed at the end of 2004, with nearly 5.9 million square feet of available product. The average asking rate for office product had very little movement and stopped the descent it faced since the opening quarter of 2001. Throughout 2005, the average asking rate slid between \$2.08 and \$2.10 per square foot full service, with the last three quarters all averaging the same: \$2.10 per square foot full service. In comparison, 2004 ended with an average rate of \$2.08, while 2003 ended at \$2.14.

The amount of leasing activity in San Mateo County's office market continued to improve, as gross absorption totaled more than 4.7 million square feet, outweighing the 4.3 million square feet in 2004 and 3.9 million square feet in 2003. Net absorption also improved significantly, more than triple the amount seen the previous year, closing 2005 with a positive 1.8 million square feet. This marks the second year in a row with positive annual

net absorption. With the cities of Foster City, Redwood Shores, and San Mateo in its region, central San Mateo County remained the most productive in terms of leasing activity, recording 1.98 million square feet, or 42% of all leasing activity countywide, followed by south San Mateo County with 1.6 million square feet and north San Mateo County with nearly 1.2 million square feet. All three areas of San Mateo County—north, south, and central—recorded positive annual net absorption in 2005.

Vacancy in the San Mateo County R&D market continued with its minor yet important downward trend in 2005. The R&D market closed the year at 15.0% vacancy, compared to 16.5% in 2004 and 21.6% in 2003. Sublease space accounted for 33%, or 874,000 square feet, of the total availability at year-end 2005. The average asking rate for R&D product remained flat for the majority of the year. It started the year at \$1.53 per square foot NNN and closed the year at \$1.54 per square foot. At the end of 2004, the average asking rate was \$1.52, and at the close of 2003 it was \$1.76. Even though the increase in average asking rate was just \$0.02 from last year, the fact that rates went up indicate a recovering market. In 2004, rates had reached their all-time low in San Mateo County. Gross absorption for R&D product in the county totaled 1.32 million square feet, and net absorption was a positive 259,000 square feet.

The San Mateo County industrial and warehouse market has two main hubs: South San Francisco and Brisbane to the north; and Belmont, San Carlos, and Redwood City to the south. The warehouse market vacancy rate reached one of its lowest levels in the past four years, ending 2005 with 6.9% vacancy. South San Francisco makes up just about half of the county's industrial and warehouse market, with 16.5 million square feet of product, and it completed the year with a vacancy of 7.9%. The average asking rate at year-end 2005 was \$0.66 per square foot NNN. For the past two years, the average asking rate has ranged between \$0.65 and \$0.68 per square foot. For the county, gross absorption totaled more than 2.5 million square feet, not as high as experienced in 2004 (3.6 million) but comparable to 2003 (2.6 million). Net absorption closed the year with a positive 222,429 square feet. South San Francisco was home to the largest warehouse deals in San Mateo County, combining for total absorption in excess of 1.5 million square feet in 2005.

For retailers in San Mateo County, 2005 proved to be a strong year. Vacancy rates for shopping centers within San Mateo have remained low while rents have continued to steadily rise. Investor demand was at an all-time high, as retail was the product of choice for many institutional investors and 1031 exchange buyers.

I-80/880 Corridor

2004 POPULATION	1,331,700
DAYTIME POPULATION	1,249,835
2004 MEDIAN HH INCOME	\$61,230
TOTAL BUSINESSES	72,256
2005 UNEMPLOYMENT RATE	4.7%



2005		

Address	Size (SF)	Туре	Price
300 Lakeside Dr., Oakland	753,000	Office	\$200,000,000
5669 Bay St., Emeryville	400,000	Retail	\$185,000,000
Multiple Addresses, Pleasanton	763,866	R&D	\$183,327,840
Bayside Technology Park, Fremont	1,100,000	R&D	\$128,000,000
Fremont Hub Shopping Center	482,000	Retail	\$123,154,000
3400 Richmond Parkway, Richmond	1,008 Units	Apartment	\$114,500,000
6400 Christie Ave., Emeryville	425 Units	Apartment	\$106,250,000
1701 Marina Blvd., San Leandro	780,000	Industrial	\$94,000,000
433 Buena Vista Ave., Alameda	615 Units	Apartment	\$86,533,125
700 Alquire Parkway, Hayward	285 Units	Apartment	\$64,000,000
3190 Red Cedar Terrace, Fremont	248 Units	Apartment	\$44,750,000
Warm Springs Plaza, Fremont	121,514	Retail	\$40,569,879
3629 Stevenson Blvd., Fremont	135 Units	Apartment	\$39,500,000
1333 Broadway, Oakland	238,394	Office	\$39,400,000
1650 65th St., Emeryville	127,246	Office	\$36,000,000

I-80/880 CORRIDOR OVERVIEW

I-80/880 CORRIDOR	R OVERV	/IEW							
0	Property Type	Building Base	Direct Availables	Sublease Availables	Total Availables	Vacancy 2005	Vacancy 2004	Rent Range	Avg Rate
	OFFICE	30,720,431	3,825,830	637,099	4,462,929	14.5%	16.1%	\$0.99-\$3.00	\$1.91
	R&D	35,176,565	6,231,864	1,512,907	7,744,771	22.0%	20.2%	\$0.30-\$2.75	\$0.84
	MFG	90,801,735	3,830,900	774,120	4,605,020	5.1%	5.5%	\$0.20-\$1.10	\$0.51
NOW N	WHSE	82,337,136	4,447,673	1,015,235	5,462,908	6.6%	8.2%	\$0.29-\$0.67	\$0.35
	TOTALS	239,035,867	18,336,267	3,939,361	22,275,628	9.3%	10.0%		
WW.						ALL RAT	ES NNN EXCEP	T FOR OFFICE (FULL	SERVICE)

he Interstate 80/880 Corridor is located along the eastern edge of the San Francisco Bay, stretching from Richmond in the north to Fremont in the south. The accessibility of many locations, including San Francisco County; San Mateo County; and Silicon Valley via I-80, I-880, I-580, I-680, and Hwy 92, makes the Corridor a very strategic region. Public transportation is also readily accessible, as BART (Bay Area Rapid Transit) has five endpoints in the region, servicing passengers throughout the Bay Area.

The Corridor includes the Port of Oakland, which handles 90% of the general cargo transported through San Francisco Bay, and is a key gateway for Asian cargo imports. The Oakland International Airport, with ongoing expansion to its infrastructure to improve its capacity, is the second-largest airport in the Bay Area, transporting approximately 673,000 tons of cargo and accommodating 14.4 million passengers in 2005. Distribution companies and manufacturers are drawn to this region for its relatively inexpensive real estate, low labor costs, and accessibility to major cities throughout California.

Signs of stability and possible recovery were apparent in the I-80/880 Corridor office market in 2005. Overall vacancy experienced a decrease during the year from 16.1% in 2004 to 14.5% at year-end 2005. Six of the 11 submarkets in the Corridor saw decreases, the most significant occurring in Emeryville, which declined 680 basis points since 2004. However, four out of the 11 submarkets closed the year with vacancy rates above the 20% mark. The ability of tenants to negotiate favorable lease terms for premier space, with high improvement allowances, free rent, flat rates, or lower rental increases, showed some retraction in late 2005.

Leasing activity in the office market finished on par with the previous two years, with 3.2 million square feet. Oakland's CBD/Lake Merritt produced the highest level of gross absorption, with more than 720,374 square feet, followed closely by Emeryville with 676,461. In addition, net absorption closed the year in positive territory for the third consecutive year with 472,724 square feet. In contrast, in 2001 and 2002, more than 3.0 million square feet was added to the market through negative net absorption.

The I-80/880 Corridor is best known as an industrial market-place. Manufacturing and warehouse markets dominate this region in terms of commercial product, combining for 72% of its total building base. The manufacturing market remained very healthy, with a vacancy of just 5.1% at the close of 2005. The average asking rate for industrial product ranged from as low as \$0.40 in Oakland to as high as \$0.93 in Emeryville. The current trend is directed at core industrial tenants moving to the Central Valley, Southern California, or out of state in search of more functional product, better distribution patterns, and cheaper

rent and labor. The trend of companies migrating from San Leandro, Hayward, and Union City continues as less expensive and higher quality options lure many users south into Fremont and Newark. Although interest rates have increased, sales to users remain strong, while building sales are still at near-record prices. However, this could change with continued increases in interest rates. The most notable lease transaction in 2005 occurred in Hayward, as Waste Management of Alameda occupied 214,813 square feet. The most significant sale in terms of total square feet occurred at 1701 Marina Boulevard in San Leandro, totaling 781,000 square feet.

In the warehouse market, vacancy began the year with a marginal increase and dropped in each successive quarter to end the year at 6.6%. This market experienced double-digit vacancy in six of the last 12 quarters and made a swift improvement to end at a level not seen since late 2001. The average asking rate for warehouse product remained very stable, beginning and ending 2005 at \$0.39 per square foot NNN. Leasing activity was fairly active in 2005 with 9.8 million square feet in total gross absorption. Net absorption was strong for the year with 1.3 million square feet. Significant lease transactions in 2005 were completed by Homelegance (309,618 square feet); DS Waters of America (222,864 square feet); Restoration Hardware (205,811 square feet) and Vistar Corporation (200,523 square feet). The outlook for 2006 includes vacancy stabilizing around 5%, moderate growth in the average asking rate by 10%, and strong leasing. The user sale market will continue to be active in 2006 but at a lower level than experienced over the past two years.

The retail market in the East Bay is soaring. ProLogis (formerly Catellus) has already completed phase one of its 7 million square foot master-planned Pacific Commons project in Fremont. The Enterprise Landing project in Alameda is currently undergoing a re-entitlement process from office use into a mixed-use retail and commercial project, 60/40 retail to commercial versus the current plan of 5/95. At I-880 at Hegenberger Road in Oakland, a 250,000 square foot retail power center was completed in late 2005. Oakland's Jack London Square was given approval in the summer of 2004 from the Oakland City Council and San Francisco Bay Conservation and Development Commission for a \$300 million expansion. Construction for this project should begin at the end of 2006.

As we begin 2006, the East Bay I-80/880 Corridor demand was up across the board in all product types. Our consumer-based spending on electronics and home improvement shows no signs of weakening and will continue to fuel job growth and business expansion. R&D in the East Bay still has a long way to go to solve the overabundant supply of vacancy in the southern submarkets of Fremont and Newark, but in the northern portion of the Corridor there are strong signs of growth.

I-680 Corridor

2004 POPULATION	784,196
DAYTIME POPULATION	641,719
2004 MEDIAN HH INCOME	\$63,355
TOTAL BUSINESSES	57,932
2005 UNEMPLOYMENT RATE	4.5%



2005		

Address	Size (SF)	Туре	Price
2175-2185 N. California Blvd., Walnut Creek	321,000	Office	\$75,850,166
1200-1220 Concord Ave., Concord	363,417	Office	\$69,457,000
3101 Crow Canyon Rd., San Ramon	211,500	Retail	\$47,500,000
2300 Camino Ramon Rd., San Ramon	260,825	Office	\$44,712,000
1450 Treat Blvd., Walnut Creek	139,676	Office	\$42,000,000
560 Contra Costa Blvd., Pleasant Hill	233,678	Retail	\$41,825,000
3478 Buskirk Ave., Pleasant Hill	206,550	Office	\$38,026,141
Multiple Addresses, Antioch	154,158	Retail	\$31,951,000
12007 Wilshire Blvd., Brentwood	65,500	Retail	\$30,900,000
1881 Ygnacio Valley Rd., Walnut Creek	109,701	Retail	\$26,727,000
2700 Ygnacio Valley Rd., Walnut Creek	106,000	Office	\$22,000,000
2030 Diamond Blvd., Concord	63,190	Retail	\$18,355,000
2001 & 2401 Crow Canyon Rd., San Ramon	122,484	Office	\$16,000,085
575 Lennon Ln., Walnut Creek	98,923	Office	\$12,300,000
777 Arnold Dr., Martinez	71,400	Office	\$10,900,000

I-680 CORRIDOR OVERVIEW

-680 CORRIDOR OVERVIEW Direct Sublease Total 2005 Walnut Creek 9,397,012 676,703 \$2.27 132,284 808,987 8.6% Concord 5.816.014 394.515 82.611 477.126 8.2% \$1.92 Pleasant Hill 1,368,052 80,425 80,425 5.9% \$1.77 Lamorinda 617,108 26 610 21 440 48 050 7.8% \$2.37 I-680 TOTAL 17,198,186 1,178,253 236,335 1,414,588 8.2% \$2.13

he I-680 Corridor office market is one of the most stable of all Bay Area commercial real estate markets. Strategically located near San Francisco, the East Bay, the Central Valley and Sacramento, the I-680 Corridor serves as an alternative for East Bay and San Francisco office tenants, offering high-image buildings with amenities that rival its neighboring markets.

The I-680 Corridor office market has a total building base of 17.2 million square feet. Vacancy for this market was 8.2%, with 1.4 million square feet of total availability at the close of 2005. The market average asking rate was \$2.13 per square foot full service. The range of vacancy rates was narrow among the different classes in the I-680 Corridor office market, while the gap in average asking rates was a bit wider. Class A spaces posted both the highest vacancy and, as we should expect, the highest asking rate of the three classes in 4th quarter 2005 at 9.6%, with a weighted average asking rate of \$2.30 per square foot full service. Lease rates for the most desirable downtown Walnut Creek office buildings (walking distance to retail) were over \$3.00 per square foot. Buildings in the Class B category posted a vacancy of 8.0% and an average asking rate of \$1.94, while Class C buildings recorded a vacancy of 8.2% and an asking rate of \$1.71 per square foot full service. The average size of existing vacant space is 5,500 square feet. Currently, there is a dearth of large blocks of contiguous space in the larger-than-30,000 square foot segment; however, the demand is at a fraction of this amount.

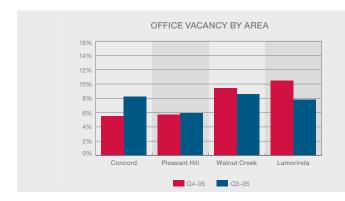
Current market conditions for the I-680 Corridor office market show positive signs for the future. Market vacancy continues to be tight compared to other Bay Area markets, and leasing activity is especially strong for downtown Class A spaces within walking distance of downtown retail and BART. Sale activity is up for both investment and owner-user transactions, while supply is relatively tight. Due to steady tenant demand, lease rates are expected to rise 5% to 10% over the next 12 to 18 months.

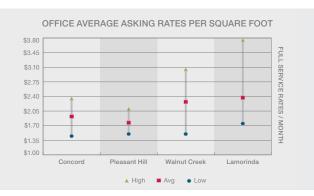
The housing market continues to boom in Walnut Creek, evidenced by the construction of new housing projects downtown, such as The Mercer project by Prometheus Real Estate Group, Montecito Apartments, Bonanza Street Apartments, Windsor Apartments, and the approved proposal of apartments and commercial space in the current BART parking lot by Walnut Creek Transit Lifestyle Associates.

The influx of residents will fuel the already high demand for office space within walking distance of downtown Walnut Creek. The demand for space within close proximity to downtown is not surprising. Walnut Creek has recently been written up as having an "ideal downtown" that other cities are looking to emulate, with its urban core of high-end retail and restaurants combined with an inviting outdoor atmosphere. Walnut Creek has become a regional destination for residential, office, and retail businesses.

Investment sale activity was brisk in the I-680 Corridor in 2005. The largest transaction was Prentiss Properties' acquisition of the Concord Airport Plaza I & II totaling 363,000 square feet. Other notable sales included RREEF's acquisition of the Mount Diablo Plaza in Walnut Creek totaling 317,000 square feet, and Jaime Shelton's purchase of the 233,000 square foot Pleasant Hill Shopping Center.

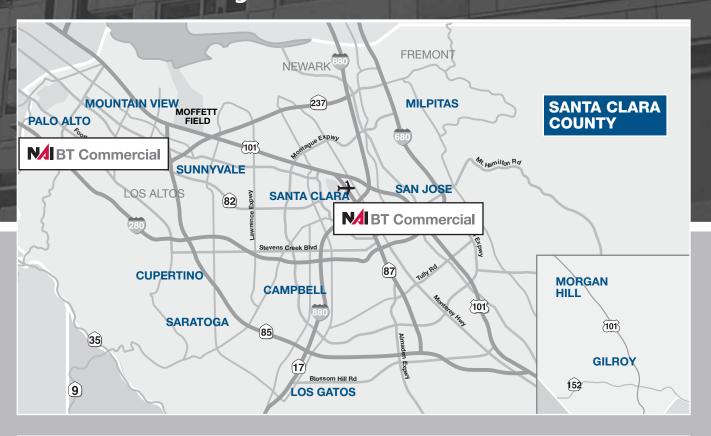
The retail market is thriving in the I-680 Corridor. The market continues to demand record prices for land sales as well as lease rates. Retail development continued to boom throughout the East Bay in 2005. Pleasant Hill saw more growth potential with Kohl's purchase of a 100,000 square foot building in the Contra Costa Shopping Center which is already under renovation. Also under renovation is 237,000 square feet in Clayton Valley Shopping Center in Concord. Development continues in the booming Brentwood area with the planned completion of Lone Tree Plaza, a 456,000 square foot retail development.





Santa Clara County

2004 POPULATION	1,724,489
DAYTIME POPULATION	1,699,081
2004 MEDIAN HH INCOME	\$86,783
TOTAL BUSINESSES	94,658
2005 UNEMPLOYMENT RATE	4.5%



			LES

Address	Size (SF)	Туре	Price
University Circle, Palo Alto	466,000	Office/Retail	\$293,000,000
Shoreline Technology Park, Mountain View	726,000	R&D	\$200,000,000
Mathilda Business Center, Sunnyvale	424,805	Office	\$174,000,000
Bayside Technology Park, Fremont	1,100,000	R&D	\$137,500,000
4355 Renaissance Dr., San Jose	637 Units	Apartment	\$127,000,000
950-1000 Maude Ave., Sunnyvale	288,050	Office	\$115,220,000
McCandless Business Park, Santa Clara	470,000	R&D	\$97,500,000
1350 Duane/3080 Raymond, Santa Clara	185,000	Warehouse	\$95,700,000
Trimble, Centre Pt, Ringwood, Orleans & Junction Ave., San Jose	737,125	R&D	\$95,000,000
Lincoln Technology Center, San Jose	250,000	R&D	\$95,000,000
333 W. San Carlos St., San Jose	300,000	Office	\$83,000,000
610 Teatree Ct., San Jose	332 Units	Apartment	\$81,000,000
3330 Zanker Rd., San Jose	495,000	R&D	\$80,000,000
Plumeria, Junction & Zanker, San Jose	417,532	R&D	\$75,100,000
1, 55, 99 Almaden Blvd., San Jose	412,841	Office, Land (Hotel)	\$72,250,000

SANTA CLARA COUNTY OVERVIEW

SANTA CLARA COU	NTY O\	/ERVIEW							
	Property Type	Building Base	Direct Availables	Sublease Availables	Total Availables	Vacancy 2005	Vacancy 2004	Rent Range	Avg Rate
	OFFICE	66,433,005	6,627,742	2,248,762	8,876,504	13.4%	14.5%	\$0.99-7.10	\$2.12
The same of the sa	R&D	131,628,494	18,795,122	6,024,694	24,819,816	18.9%	21.5%	\$0.29-2.90	\$0.89
THE RESERVE	MFG	53,118,553	2,826,407	315,595	3,142,002	5.9%	6.3%	\$0.15-1.25	\$0.62
THE RESERVE TO THE RE	WHSE	32,668,007	2,639,106	682,562	3,321,668	10.2%	12.6%	\$0.19-0.80	\$0.39
THE PERSON NAMED IN COLUMN TWO IS NOT THE PERSON NAMED IN COLUMN TWO IS NAMED IN COLUMN TW	TOTALS	283,848,059	30,888,377	9,271,613	40,159,990	14.1%	16.0%		
THE REAL PROPERTY.						ALL RAT	ES NNN EXCEPT	FOR OFFICE (FULL	SERVICE)

anta Clara County is the largest county in the Bay Area and is considered by many to be one of the best places in the United States to live, work, and play. Santa Clara County boasts some of the highest-rated education systems in the country and is home to three major universities: Stanford University, Santa Clara University, and San Jose State University. This county provides more than one-quarter of all jobs in the Bay Area, and it has one of the highest median family incomes in the country.

Santa Clara County is second only to San Francisco County as the largest office market in the Bay Area, with more than 66 million square feet of product. Since peaking at 18.0% two years ago, vacancy in this office market has experienced a steady decline for nearly eight consecutive quarters (one quarter remained flat). Overall, vacancy dropped 123 basis points countywide, from 14.6% in 2004 to 13.4% at the close of 2005, its lowest level in four years. The average asking rate for office product in this county was among the highest in the Bay Area in 2005 at \$2.12 per square foot full service, a \$0.04 increase from the previous year.

The city of San Jose makes up 27 million square feet, or 41%, of the county's office product. Housing 20% of the available office product in Santa Clara County, downtown San Jose maintains one of the highest vacancy rates of any downtown office market in the United States, and in 2005, vacancy continued to see an increase. However, with the continued improvement of the Valley's office market, a newly built City Hall, additional housing units being added, and the fact that this is one of the nation's most attractive metropolitan locations, downtown is "ready in the wings" for a recovery. Further evidence that this market is capable of such recovery stems from commercial owners such as Legacy Partners, which invested in the downtown market in 2005 with the acquisition of two of the city's most prominent high-rise office projects: the Horizon Center and River Park Tower (with room for a second tower to be constructed).

Gross absorption in the Santa Clara County office market totaled 7.5 million square feet in 2005. The cities of Santa Clara, San Jose, and Sunnyvale housed some of the largest deals in the county—and in the Bay Area. Net absorption recorded a positive 1.2 million square feet in 2005, indicating the "net" amount of space absorbed during the year. This was the second consecutive year to record positive net absorption, a first since 1999–2000. The Santa Clara County office market has made great strides in the past two years. From 2001 to 2003, nearly 8 million square feet was added to the market through negative net absorption, while 2004 and 2005 combined absorbed 3.5 million square feet.

The West Valley region of Santa Clara County (comprised of Cupertino, Campbell, Los Gatos, and West San Jose) is one of the county's main office attractions. Despite a slight increase in 4th quarter 2005 to 8.5%, vacancy was 138 basis points lower

than the same reporting period one year previous (9.8%). A large reason for the increase in vacancy was the limited amount of activity in the 4th quarter of 2005, which recorded just 74,660 square feet of gross absorption. To compare, the previous eight quarters (the aforementioned chain of declined vacancy) averaged more than 356,000 square feet of gross activity. Furthermore, following three quarters of positive net absorption (totaling 258,346 square feet), the West Valley region recorded a negative 103,710 square feet of net absorption in 4th quarter 2005.

Santa Clara County contains more than 70%, or 132 million square feet, of the total R&D product in the Bay Area. Vacancy saw an overall decline in 2005, from 21.5% in 2004 to 18.8%. Three of the county's submarkets posted vacancy rates above 20% at the close of 2005: Milpitas (23.1%), San Jose (21.5%), and Santa Clara (20.5%). However, all three rates are down considerably from 2004. The majority, however, fell in the low teens. The average asking rate closed 2005 at \$0.89 NNN, signifying no change year over year.

Gross absorption achieved more than 15.1 million square feet, its highest annual total in the last five years. Santa Clara was home to the two largest R&D deals in the county, as General Dynamics leased 359,000 square feet and EMC took 302,000 square feet. San Jose was also home to some of the largest R&D deals in the Bay Area, including a 221,495 square foot renewal/expansion from Western Digital Corporation, a 188,303 square foot lease from Komag, and a 165,000 square foot renewal from Stryker Endoscopy. Net absorption in 2005 was an incredible positive 3.75 million square feet countywide (indicating the "net" amount of space absorbed from the market), its highest annual total since 2000.

The warehouse market vacancy rate closed in on single digits as it fell from 12.6% in 2004 to 10.2% at year-end 2005. The industrial market, Santa Clara County's strength in terms of vacancy, saw its vacancy rate decline another 33 basis points, from 6.3% in 2004 to 5.9% at year-end 2005, its lowest level since mid-2001. The average asking rate for the warehouse market remained flat for most of the year at \$0.39 NNN, while the industrial market saw a \$0.03 increase to \$0.62 NNN.

Activity was exceptional in the warehouse market in 2005, as it displayed its highest gross activity as well as its first positive annual net absorption since 2000. Activity in the manufacturing market was parallel with that of 2004 yet above its five-year historical average. The major warehouse transactions included Valley Relocation (212,840 square feet); Fox Racing (162,020 square feet); Solectron (142,272 square feet); NSG technology, Inc. (136,088 square feet); and Green Valley Corp. (122,313 square feet). One standout industrial deal came from Hyatt Die Cast on a 78,424 square foot renewal in Sunnyvale.

Santa Cruz County

2004 POPULATION	260,875
DAYTIME POPULATION	221,743
2004 MEDIAN HH INCOME	\$67,012
TOTAL BUSINESSES	15,824
2005 UNEMPLOYMENT RATE	6.3%



2005 MAJOR SALES			
Address	Size (SF)	Туре	Price
5300 Soquel Ave. (Building A), Santa Cruz	30,736	R&D	\$7,899,152
1600 Green Hills Rd., Scotts Valley	68,655	Office	\$6,800,000
Bronte Ave., Watsonville	252,212	Land	\$5,809,000
1455 Main St., Watsonville	95,396	Land	\$4,549,000
225 Technology Cir., Scotts Valley	16,111	R&D	\$2,675,000
150 DuBois St., Santa Cruz	15,060	Office	\$2,410,000
2751 Research Park Dr., Soquel	11,405	Office	\$2,125,000
1410 Ocean St., Santa Cruz	10,240	Office	\$2,000,000
940 Disc Dr., Scotts Valley	12,800	Office	\$2,000,000
59 El Pueblo Rd., Scotts Valley	17,100	Industrial	\$1,846,500
1010 Fair Ave., Santa Cruz	16,000	Industrial	\$1,800,000
903 Cedar St./204 Church St., Santa Cruz	6,600	Retail	\$1,608,750
6125 Abbey Rd., Aptos	40,075	Land	\$1,500,000
101 Esplanade, Aptos	3,600	Retail	\$1,351,000
212 Laurel St., Santa Cruz	6,522	Office	\$1,260,000

SANTA CRUZ COUNTY OVERVIEW

SANTA CRUZ COUNTY OVERVIEW **OFFICE** 66,433,005 6,627,742 2.248.762 8,876,504 13.4% 14.5% \$0.99-7.10 \$2.12 R&D 131.628.494 18.795.122 6.024.694 24.819.816 18.9% 21.5% \$0.29-2.90 \$0.89 MFG 53,118,553 2.826.407 315,595 3,142,002 5.9% 6.3% \$0.15-1.25 \$0.62 WHSF 32,668,007 2,639,106 682,562 3,321,668 10.2% 12.6% \$0.19-0.80 \$0.39 TOTALS 283 848 059 30.888.377 9.271.613 40.159.990 14 1% 16.0%

anta Cruz County is the second-smallest county by area in the state and is connected to Silicon Valley via Hwy 17, with as many as 6,000 vehicles per hour commuting to and from work along this pathway. The local economy is still largely dependent on tourism and agriculture but is becoming more diversified, with businesses in the high-tech, software, and educational industries. Such businesses include Borland Software, Aviza Technology, Seagate Technology, Cabrillo College, Plantronics, and UC Santa Cruz. Currently, UC Santa Cruz is planning for 6,600 additional students over the next 15 years. With its six state parks, attractive beaches, and famous Santa Cruz Beach Boardwalk, the county is one of California's most popular seaside regions.

The Santa Cruz County office market is its largest commercial market, with 6.9 million square feet of building base. This market is dominated by smaller buildings of 10,000 square feet or below. Despite two quarters of decline in the latter half of the year, vacancy still closed 2005 above its respective level the previous year. Overall, office vacancy closed 2005 in double digits at 11.4%, compared to 9.8% in 2004. Scotts Valley, which comprises one-quarter of this market, closed with the highest vacancy in the county at 23.3%, followed distantly by Santa Cruz with an 11.4% vacancy. The smaller submarkets of Aptos/Capitola/Soquel and Watsonville were on the low end, each at 3.4% vacancy. Notably, all four submarkets experienced increased vacancy from the previous year.

The total amount of office product online at the close of 2005 was over 782,000 square feet, 18% of which was sublease product. To compare, 2004's total availability was roughly 675,000 square feet, 28% of which was sublease space. The average asking rate for office product countywide was \$2.06 per square foot full service at year-end 2005, representing a nickel increase from 2004. The average asking rate has remained within a dime above the \$2.00 mark—never falling below—for over two and one-half years.

Leasing activity started the year slowly, but the next three quarters all produced more than 100,000 square feet of gross absorption, a first for this county's office market. Annually, gross absorption tallied over 520,000 square feet, its highest mark on record as well. However, despite the exceptional gross activity displayed during the year, net absorption still recorded a negative 108,000 square feet. In stark contrast, in 2004, net absorption for the year was a positive 185,238 square feet. Two key leases signed in 2005 were from Borland (30,687 square feet) and Universal Audio (20,000 square feet). The largest sale (a user purchase) was by Central Coast Alliance for Health on a purchase of 68,655 square feet in Scotts Valley.

The R&D market is Santa Cruz County's smallest., with just over 1 million square feet of product. Vacancy in this market declined more than twofold, from 10.2% in 2004 to just 4.8% in 2005. This

was the lowest vacancy rate on record for this R&D market. The average asking rate for R&D space is relatively stable in Santa Cruz County. After dipping below a dollar in 3rd quarter 2005, the year ultimately closed at \$1.06 per square foot NNN due to some lower-priced as well as sublease product being absorbed from the market.

For the year, gross absorption was 125,353 square feet, the third consecutive year to gross above 100,000 square feet, while net absorption for 2005 was a positive 60,954 square feet, this market's third consecutive year of positive net absorption.

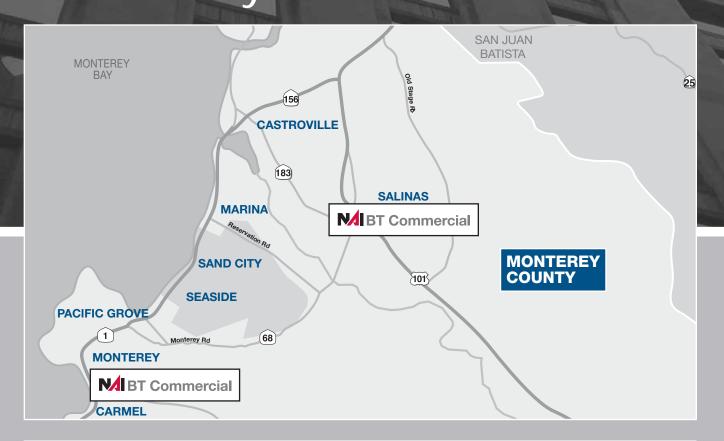
The industrial/warehouse market has a combined building base of approximately 10.5 million square feet (6.4 million of industrial product and 4.1 million of warehouse product). The Santa Cruz County manufacturing market is comprised primarily of two cities: Santa Cruz, which makes up 45% of the market, and Watsonville, which makes up another 39%. Vacancy in this market has yet to touch double digits, and in 2005 it moved even further below the 10% mark. Overall vacancy traveled downward from 8.4% in 2004 to 7.7% at year-end 2005. After gaining as high as \$0.76 mid-2005, the average asking rate closed 2005 at \$0.72 per square foot NNN, a \$0.02 decline from the same reporting period a year ago. In 2005, gross absorption for the county tallied 176,520 square feet, its lowest annual total in three years. However, annual net absorption still remained positive, with 47,138 square feet, its second consecutive year in positive territory.

Overall, warehouse vacancy closed 2005 at 3.8%, its lowest level in nearly three years (1st quarter 2002 was 3.4%). In 2004, vacancy ended the year at 5.8%. Watsonville, which contains 67% of the county's warehouse market, was home to 70%, or 109,000 square feet, of the total availability. The average asking rate has stabilized, remaining around \$0.60 for two years. At year-end 2005, the average asking rate was \$0.66 per square foot NNN. Just as Watsonville contains the most availability, it was also home to the most activity in 2005, tallying 115,505 square feet of gross absorption during the year thanks to three lease transactions that surpassed 20,000 square feet. This was the single highest annual gross activity recorded in any year by any submarket since 1999 (Watsonville—125,555 square feet). Countywide, net absorption was a positive 80,566 square feet in 2005, compared to a negative 42,577 square feet in 2004.

At UC Santa Cruz, major expansion in the next 15 years could add as many as 6,600 new students, as mentioned above, to the current population of 14,400. An additional 370 faculty and 1,250 staff members would also come to the campus. The challenges presented by such a plan include housing, transportation subsidies, congestion, and water demand.

Monterey County

2004 POPULATION	419,023
DAYTIME POPULATION	373,000
2004 MEDIAN HH INCOME	\$54,947
TOTAL BUSINESSES	15,855
2005 UNEMPLOYMENT RATE	9.2%



		LES

Address	Size (SF)	Туре	Price
Hwy 101 @ Esparanza Rd., Chualar	721,000	Agricultural	\$6,000,000
60 Garden Ct., Monterey	41,399	Office	\$5,830,000
Ryan Ranch Business Park, Monterey	596,772	Ind/Ofc Land	\$4,326,597
E. Market St., Salinas	359,370	Commercial Land	\$3,593,700
1148 Fremont Boulevard, Seaside	24,890	Retail	\$3,275,000
1353 Dayton St., Salinas	39,650	Industrial	\$3,066,634
880 Tioga Ave., Sand City	24,500	Retail	\$2,400,000
5 Harris Ct. Bldg T, Monterey	10,500	Medical Office	\$2,100,000
1350 Burton Ave., Salinas	18,961	Warehouse	\$1,900,000
251 W. Market St., Salinas	17,580	Industrial	\$1,850,000
325 Front St., Salinas	253,954	Industrial Land	\$1,500,000
722 La Guardia St., Salinas	136,778	Ind/Ofc Land	\$1,250,000
209 Pajaro St., Salinas	6,700	Office	\$1,150,000
2180 N. Main St., Salinas	6,655	Office	\$1,087,500
11656 Merritt St., Castroville	8,412	Office	\$900,000

MONTEREY COUNTY OVERVIEW

MONTEREY COUNT	Y OVEF	RVIEW							
	Property Type	Building Base	Direct Availables	Sublease Availables	Total Availables	Vacancy 2005	Vacancy 2004	Rent Range	Avg Rate
The second second	OFFICE	5,806,999	446,083	52,012	498,095	8.6%	8.3%	\$1.50-3.00	\$1.99
	R&D	980,781	60,210	0	60,210	6.1%	6.7%	\$0.80-1.10	\$0.93
	MFG	3,861,276	169,754	0	169,754	4.4%	2.6%	\$0.60-0.90	\$0.77
第二日日日 日日日 次	WHSE	6,658,938	223,615	0	223,615	3.4%	3.8%	\$0.50-0.82	\$0.70
	TOTALS	17,307,994	899,662	52,012	951,674	5.5%	5.2%		
						ALL RAT	ES NNN EXCEPT	FOR OFFICE (FULL:	SERVICE)

onterey County is situated along the central coast of California and rests 120 miles south of San Francisco, 70 miles south of San Jose, and 345 miles north of Los Angeles. The county population is just above 420,000, approximately 35% of which resides along the peninsula. The Monterey Peninsula is heavily dependent on tourism, while the Salinas Valley area is one of the state's most significant agricultural regions. Tourism in Monterey County is approximately a \$2.4 billion-a-year industry. The number of full-time-equivalent tourism-generated jobs in Monterey County in 2004 was about 22,700. The county's top attraction is the world-famous Monterey Bay Aquarium, which recorded nearly 1.8 million visitors in 2004.

Nationwide, the value of agricultural land is \$400 per acre, but in Monterey County that number is far greater, at \$10,000 per acre of farmland. According to Monterey County's crop report, the county's agricultural market tallied \$3.4 billion in crop production for 2004, ranking it third behind Fresno and Tulare Counties in gross value. However, due to the complexities involved in crop production, the impact the county's agriculture actually poses is far greater. Through sophisticated studies involving a "multiplier effect," some have shown an actual impact value from a conservative \$6 billion to a more aggressive estimate of \$10 billion after all segments affected have been accounted for. One of the most historical transactions in Salinas Valley took place in June 2005 when Chiquita Brands International acquired Salinas-based Fresh Express for \$855 million.

The wine industry is also a large part of Monterey County's image. There are 22 Salinas Valley and Carmel Valley tasting rooms and over 25 winery facilities in Monterey County. A few more tasting rooms were added in 2005, and still more are planned. The 2004 wine harvest showed slight increases from 2003 for both bearing acreage and harvest value. Harvest value increased from \$160 million in 2003 to \$174 million in 2004. Another plus for the local wine industry was the Supreme Court ruling in mid-2005 allowing wineries to ship directly to out-of-state customers.

The political battles continue over the future of Monterey County's land use between those who are pro-growth and those who are on the side of environmental/slow-growth. The county's general plan, a 20-year blueprint for its future, has already been six years in the making, with spending reaching \$6 million. A major political battle looming is the General Plan Initiative being processed by slow-growth and environmental supporters for a referendum vote in November, 2006. Supporters claim the Initiative would reduce the powerful clout of the development money in Monterey County supervisorial politics. Opponents counter that the Initiative would hamstring needed housing and business growth and take development decisions out of the hands of local jurisdictions and put it in the hands of county voters. Stay tuned, the political

mud-slinging will be fierce and if the ballot measure is passed, Monterey County's already very challenging developments climate will become much more complicated.

In the middle of the county's blueprint political battle sits the redevelopment of the former Fort Ord military base. The major concerns for this include environmental, water, and funding. In 2005, two new Fort Ord projects drew closer to fruition. The county approved, nearly unanimously, the 1,400-home East Garrison project, a "new urbanist" development at Fort Ord from a team of developers: Woodman Development, Urban Community Partners, and William Lyon Homes. The Marina City Council approved the University Villages project, which includes a mix of 1,237 housing units, a big-box retail power center of over 600,000 square feet, offices, a village center, and a beach boardwalk. The project would create 4,800 jobs and 3,300 new Marina residents.

Water still remains a very key issue as the Monterey Peninsula looks for an alternative water source to the Carmel River because of the state order to reduce pumping by 10,730 acre-feet per year. Among the partnerships the Monterey Peninsula Water Management District board is considering are with the Cal-Am Water Company on a Moss Landing desalination plant; Pajaro-Sunny Mesa's desalination project at Moss Landing Commercial Park, which competes with Cal Am's; a regional water project being pursued by the Monterey County Water Resources Agency; and the Monterey Regional Water Pollution Control Agency's proposal to recycle highly treated wastewater for landscape purposes and, possibly, drinking water.

Most sectors in Monterey County's commercial real estate markets remain quite healthy. Vacancy in the office market saw another increase through the year as a brand-new Class A building of 38,000 square feet at 1615 Bunker Way and a 62,000 square foot Class A building at 928 E. Blanco Road, both in Salinas, were constructed in 2005. Overall, office vacancy saw an increase from 8.3% in 2004 to 8.6%. The R&D market saw the County's largest decline in vacancy from 6.7% in 2004 to a 6.1%. Warehouse space saw a modest downtick during the past year, from 3.8% to 3.4%%, while manufacturing product saw a significant increase from 2.6% to 4.4%. The retail market saw a continued decline in vacancy, from 4.6% in 2004 to just 4.2%.

Commercial condos sales became a key niche for the Bay Area commercial market in 2004 and 2005, and Monterey County recently followed suit. Currently, there are two key condo projects planned for Monterey County. The first is a 149,000 square foot office/R&D condo project within the Ryan Ranch Business Park in the city of Monterey, to be completed in 1st quarter 2007, and the second is a three-phase, 140,000 square foot industrial/office condo project at the Moffett Street Commerce Center in Salinas,

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TERMS

OFFICE

Includes Class A, Class B, Class C, and suburban garden office buildings over 10,000 square feet. Class A product is steel and concrete construction, built after 1980, quality tenants, excellent amenities, and premium rents. Class B product is built after 1960, fair to good finishes, and wide range of tenants.

R&D

Modern flex buildings with some space dedicated to research and/or product development. Buildings usually have parking greater than 3.5/1000, clear height less than 18', 1-2 stories, and three sides of glass.

MFG

Manufacturing buildings generally have a parking ratio less than 3/1000, clear height less than 18', dock or grade-level doors, 6-15% office buildout, and one side of glass.

WHSE

Warehouse buildings generally have a parking ratio less than 2/1000, clear height greater than 18', multiple dock and/or grade-level doors, limited office buildout, and a limited amount of glass.

Building Base

Total market inventory of buildings generally over 10,000 square feet.

Total Availables

All space being marketed for lease, available direct or sublease, within 90 days.

Vacancy

Available square footage divided by total square footage of inventory.

Net Absorption

Change in occupied square footage from period to period.

Gross Absorption

Total lease or user purchase activity in a period.

Rent Range

Range in asking rates at the end of 2005. Unless otherwise noted, office rents are quoted as monthly full service rates, and R&D, mfg, and whise are quoted as NNN monthly rates.

Avg. Asking Rent

The weighted average (by square footage) of quoted rents at the end of 2005.

N/A

Indicates information was not applicable or not available at press time.

Demographics

Data provided by A.G.S.

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